

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 0974H.03C  
 Bill No.: HCS for SS for SB 25  
 Subject: Taxation and Revenue - General; Taxation and Revenue - Income; Internet and E-Mail  
 Type: Original  
 Date: March 7, 2023

Bill Summary: This proposal authorizes an income tax deduction for certain grant money for expanding or providing broadband services.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
General Revenue*	(\$20,888,190)	(\$1,037,905 to \$16,265,810)	(\$1,037,905 to \$16,265,810)
<b>Total Estimated Net Effect on General Revenue</b>	<b>(\$20,888,190)</b>	<b>(\$1,037,905 to \$16,265,810)</b>	<b>(\$1,037,905 to \$16,265,810)</b>

\* The fiscal impact depends upon the total amount of federal grants awarded (fiscal note is based on historical range of \$22.7 million (2019) to \$356 million (2023) in a given year), also whether or not the grant is received by a tax-exempt entity or not, and, if a taxable entity, whether the entity pays corporate income tax or individual income tax.

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: () indicate costs or losses.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2024</b>	<b>FY 2025</b>	<b>FY 2026</b>
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>			
<b>FUND AFFECTED</b>	<b>FY 2024</b>	<b>FY 2025</b>	<b>FY 2026</b>
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</b>

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

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2024</b>	<b>FY 2025</b>	<b>FY 2026</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

## FISCAL ANALYSIS

### ASSUMPTION

#### **Section 143.121 Broadband Federal Grant Money Subtraction**

Officials from the **Department of Revenue (DOR)** note the proposal appears to create an income tax subtraction from a taxpayer's federal adjusted gross income. The proposal would become effective on August 28, 2023 but attempts to make this tax subtraction retroactively applicable to tax years beginning on or after January 1, 2022. Therefore, any fiscal impact will have tax year 2022 and tax year 2023 being shown in fiscal year 2024.

This proposal is unclear in exactly what would qualify for the subtraction. It says

*“For all tax years beginning on or after January 1, 2022, the amount of any federal, state, or local grant received by the taxpayer, and the amount of any discharged federal, state, or local indebtedness incurred by the taxpayer, for purposes of providing or expanding access to broadband services in this state”.*

The Department notes the language is unclear in its intent. It appears it could be exempting all of the following:

- All federal, state and local grants.
- All discharged federal, state and local indebtedness.
- All discharged federal, state and local indebtedness for providing or expanding access to broadband services.
- All federal, state and local grants for the purpose of providing or expanding access to broadband services.

The Department does not have not have enough information to estimate the amount of all discharged federal, state and local indebtedness. There is no single source of information that could provide that data. Recently the federal government granted a discharge of student loan payments and other types of loan forgiveness. If the intent of this proposal is to give a subtraction for all discharged/forgiven federal, state and local indebtedness, this would result in an unknown significantly over \$1 million loss to general revenue.

If this subtraction only applies to loans or grants for providing broadband services DOR can provide an estimate of the impact. DOR notes that some federal grant money is exempt from taxation while other grants are not. Currently, broadband grants that are taxable include those distributed through the American Rescue Plan Act (ARPA), Infrastructure Investment and Jobs Act (IIJA), Broadband Equity, Access, and Deployment Program (BEAD), the Digital Equity Act, and USDA's ReConnect program.

The grants distributed under the Broadband Technology Opportunities Program (BTOP), the Broadband Initiative Program (BIP), and Coronavirus Relief Fund (CRF) were specifically exempt from federal tax and therefore Missouri tax.

DOR reached out to the Department of Economic Development (DED) to find out how much they have distributed under programs that would be taxable. They noted that between 2020 and 2023 they will have distributed \$315,370,000 in broadband grants that are taxable. Additionally, they expect to receive up to \$1 Billion more to distribute from 2023-2028. How much of that would come from a program that has taxable grants has not been determined.

Based on research into grants it was found that the USDA-Reconnect program has distributed \$175 million in grants to Missouri companies for expansion of broadband. Additionally, the federal grants are being distributed by local governments. One report estimated that as much as \$5 billion could be distributed throughout Missouri over the next few years.

Based on the best information available, DOR estimates that the following amounts of taxable broadband grants have been distributed in Missouri.

Tax Year	Federal Grants
2019	\$22,716,387
2020	\$121,174,813
2021	\$30,805,895
2022	\$86,151,208
2023	\$356,005,895

So this proposal could exempt between \$22 million and \$356 million annually from income tax. It should be noted that deductions do not reduce revenue on a dollar for dollar basis, but rather in proportion to the tax rate applied. SB 3 (2022) set the current individual income tax rate at 4.95% for tax year 2023 with additional reductions in the future. Those reductions are currently estimated to be:

Table 2: Future Estimated Tax Rates

Tax Year	Estimated Tax Rate
2023	4.95%
2024	4.8%
2025	4.8%
2026	4.7%
2027	4.6%
2028+	4.5%

Therefore, DOR will show the impact of the implementation of this proposal through the reductions scheduled under SB 3. DOR notes that some of the grant recipients are businesses that file as pass-through entities and therefore use the individual income tax rate shown above. However, other grant recipients are corporations and file at the current corporate rate of 4%.

Based on research of award amounts, DOR found that 28.9% of the grant awards go to corporations and 71.1% go to the pass-through entities. DOR has distributed the grants per entity type.

Estimated Taxable Grants by Entity Type

Tax Year	Corporate Awards	Pass-Through Awards
2019	\$6,560,151	\$16,156,236
2020	\$34,993,464	\$86,181,350
2021	\$8,896,279	\$21,909,616
2022	\$24,879,173	\$61,272,035
2023	\$102,809,148	\$253,196,747

Corporate Income Tax

This proposal could reduce corporate tax collections by \$995,167 ( $\$24,879,137 \times 4.0\%$ ) in FY24, for tax year 2022 broad brand grants. In addition, this proposal could reduce corporate tax collections by \$4,112,366 ( $\$102,809,148 \times 4.0\%$ ) in FY24, for tax year 2023 broadband grants.

This proposal could reduce corporate tax collections by \$262,406 ( $\$6,560,151 \times 4.0\%$ ) to \$4,112,366 ( $\$102,809,148 \times 4.0\%$ ) annually thereafter, depending on the amount of grants awarded each year. The estimated impact by tax and fiscal years.

Estimated Corporate Income Tax Loss by Year

Tax Year	Fiscal Year	Low	High
TY 2022	FY 2024	(\$995,167)	
TY 2023	FY 2024	(\$4,112,366)	
TY 2024	FY 2025	(\$262,406)	(\$4,112,366)

Individual Income Tax

This proposal could reduce individual income tax by \$3,247,418 ( $\$61,272,035 \times 5.3\%$ ) in FY24, for tax year 2022 broadband grants. In addition, this proposal could reduce individual income tax by \$12,533,239 ( $\$253,196,747 \times 4.95\%$ ) in FY24, for tax year 2023 broadband grants.

Once SB 3 (2022) has fully implemented, this proposal could reduce individual income tax collections by \$727,031 ( $\$16,156,236 \times 4.5\%$ ) to \$11,393,854 ( $\$253,196,747 \times 4.5\%$ ). The estimated impact by year and top tax rate.

Estimated Income Tax Loss by Fiscal Year

		Tax Year (Fiscal Year)											
Tax Rate		2022 (FY24)		2023 (FY24)		2024 (FY25)		2025 (FY26)					
		Low		High		Low		High					
5.30%		(\$3,247,418)											
4.95%				(\$12,533,239)		(\$799,734)		(\$12,533,239)		(\$799,734)		(\$12,533,239)	
4.80%						(\$775,499)		(\$12,153,444)		(\$775,499)		(\$12,153,444)	
4.70%										(\$759,343)		(\$11,900,247)	
4.60%													
4.50%													

Estimated Income Tax Loss by Fiscal Year

		Tax Year (Fiscal Year)							
Tax Rate		2026 (FY27)			2027 (FY 28)				
		Low		High		Low		High	
5.30%									
4.95%		(\$799,734)		(\$12,533,239)		(\$799,734)		(\$12,533,239)	
4.80%		(\$775,499)		(\$12,153,444)		(\$775,499)		(\$12,153,444)	
4.70%		(\$759,343)		(\$11,900,247)		(\$759,343)		(\$11,900,247)	
4.60%		(\$743,187)		(\$11,647,050)		(\$743,187)		(\$11,647,050)	
4.50%						(\$727,031)		(\$11,393,854)	

Summary

Due to the unclear nature of the language DOR is only submitting the impact of the broadband grants and loans. Due to the requirement that this proposal be retroactive to the 2022 tax year, DOR is showing tax year 2022 and tax year 2023 in FY 2024.

This will result in a loss to general revenue of the following:

Estimated Total Revenue Loss by Fiscal Year

		Tax Year (Fiscal Year)									
Tax Rate		FY 2024		FY 2025		FY 2026					
				Low		High		Low		High	
5.30%											
4.95%		(\$20,888,190)		(\$1,062,140)		(\$16,645,605)		(\$1,062,140)		(\$16,645,605)	
4.80%				(\$1,037,905)		(\$16,265,810)		(\$1,037,905)		(\$16,265,810)	
4.70%								(\$1,021,749)		(\$16,012,613)	
4.60%											
4.50%											

Table 5 : Estimated Revenue Loss by Fiscal Year

Tax Rate	FY 2027		FY 2028	
	Low	High	Low	High
4.95%	(\$1,062,140)	(\$16,645,605)	(\$1,062,140)	(\$16,645,605)
4.80%	(\$1,037,905)	(\$16,265,810)	(\$1,037,905)	(\$16,265,810)
4.70%	(\$1,021,749)	(\$16,012,613)	(\$1,021,749)	(\$16,012,613)
4.60%	(\$1,005,593)	(\$15,759,416)	(\$1,005,593)	(\$15,759,416)
4.50%			(\$989,437)	(\$15,506,220)

This will require DOR update their instructions for the MO-1040 and the MO-A forms. It is estimated these changes will 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 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.

Officials from the **Office of Administration - Budget and Planning (B&P)** note this proposal would exempt all federal/state/local grants, and all federal/state/local loans that are subsequently forgiven, for providing or expanding broadband internet. B&P notes that this proposal would become effective August 28, 2023, but would make the income exemption retroactive to tax year 2022. Therefore, the FY24 impact would include both income exempted in tax year 2023 and refund requests for newly excluded income received in tax year 2022.

B&P notes that due to the placement of commas within this language, it is unclear if the language would exempt:

- All federal/state/local grants. Plus all discharged/forgiven federal/state/local loans for the purpose of providing/expanding broadband.

Or

- All federal/state/local grants and discharged/forgiven loans for the purpose of providing/expanding broadband.

Or

- All federal/state/local grants for the purpose of providing/expanding broadband. Plus all discharged/forgiven federal/state/local loans.

B&P does not have enough information to estimate the potential revenue loss from exempting all federal, state, and local grants from income tax. B&P also does not have enough information to estimate the potential revenue loss from exempting all federal, state, and local discharged/forgiven loans. For the purpose of this fiscal note, B&P will estimate the impact from exempting broadband related grants only. The actual revenue impact from this bill could significantly exceed the estimates below if other federal/state/local grants and loans become exempt as a result of this language.

Based on extensive research, B&P determined that the majority of federal broadband grants are included in a taxpayer's federal adjusted gross income (FAGI). B&P further notes that the calculation for Missouri taxes begins with a taxpayer's FAGI. Therefore, federal broadband grants are also taxable in Missouri.

B&P notes that there are times when a federal grant is not taxable. For example, grants that go to non-profit organizations are not taxable. There are also some federal broadband grants specifically exempted from federal taxes. These include the Broadband Technology Opportunities Program (BTOP), the Broadband Initiative Program (BIP), and Coronavirus Relief Fund (CRF). Other programs, such as the American Rescue Plan Act (ARPA), Infrastructure Investment and Jobs Act (IIJA), Broadband Equity, Access, and Deployment Program (BEAD), the Digital Equity Act, and USDA's ReConnect program are all considered taxable.

Based on available data, B&P estimates that from 2019 through 2023 between \$22,716,387 and \$356,005,895 in potentially taxable grants have been granted within Missouri. Table 1 shows the estimated amount per tax year.

Table 1: Estimated Taxable Grants

Tax Year	Federal Grants
2019	\$22,716,387
2020	\$121,174,813
2021	\$30,805,895
2022	\$86,151,208
2023	\$356,005,895

Therefore, B&P estimates that this proposal could exempt between 22,716,387 and \$356,005,895 from income tax in any given year. However, deductions do not reduce revenues on a dollar for dollar basis, but rather in proportion to the top tax rate applied. B&P notes that grants are awarded to both corporations and pass-through entities. B&P further notes that the corporate tax rate is 4.0%. The individual income tax rate (for pass-through businesses) is 4.9% for tax year 2023. However, additional rate reductions are scheduled to occur under current law. Therefore, B&P will show the estimated impacts throughout the implementation of the tax rate reductions from SB 3 (2022).

Based on historic award data, B&P estimates that approximately 28.9% of awards go to corporations and 71.1% go to pass-through entities. Table 2 shows the estimate grant awards per entity type.



Table 2: Estimated Taxable Grants  
 by Entity Type

Tax Year	Corporate Awards	Pass-Through Awards
2019	\$6,560,151	\$16,156,236
2020	\$34,993,464	\$86,181,350
2021	\$8,896,279	\$21,909,616
2022	\$24,879,173	\$61,272,035
2023	\$102,809,148	\$253,196,747

Corporate Income Tax

Therefore, B&P estimates that this proposal could reduce corporate tax collections by \$995,167 (\$24,879,137 x 4.0%) in FY24, for tax year 2022 broad brand grants. In addition, this proposal could reduce corporate tax collections by \$4,112,366 (\$102,809,148 x 4.0%) in FY24, for tax year 2023 broadband grants.

This proposal could reduce corporate tax collections by \$262,406 (\$6,560,151 x 4.0%) to \$4,112,366 (\$102,809,148 x 4.0%) annually thereafter, depending on the amount of grants awarded each year. Table 3 shows the estimated impact by tax and fiscal years.

Table 3: Estimated Corporate Income Tax Loss by Year

Tax Year	Fiscal Year	Low	High
TY 2022	FY 2024	(\$995,167)	
TY 2023	FY 2024	(\$4,112,366)	
TY 2024	FY 2025	(\$262,406)	(\$4,112,366)

Individual Income Tax

B&P estimates that this proposal could reduce individual income tax by \$3,247,418 (\$61,272,035 x 5.3%) in FY24, for tax year 2022 broadband grants. In addition, this proposal could reduce individual income tax by \$12,533,239 (\$253,196,747 x 4.95%) in FY24, for tax year 2023 broadband grants.

Once SB 3 (2022) has fully implemented, this proposal could reduce individual income tax collections by \$727,031 (\$16,156,236 x 4.5%) to \$11,393,854 (\$253,196,747 x 4.5%). Table 4 shows the estimated impact by year and top tax rate.

Table 4: Estimated Income Tax Loss by Fiscal Year

Tax Rate	Tax Year (Fiscal Year)					
	2022 (FY24)	2023 (FY24)	2024 (FY25)		2025 (FY26)	
			Low	High	Low	High
5.30%	(\$3,247,418)					
4.95%		(\$12,533,239)	(\$799,734)	(\$12,533,239)	(\$799,734)	(\$12,533,239)
4.80%			(\$775,499)	(\$12,153,444)	(\$775,499)	(\$12,153,444)
4.70%					(\$759,343)	(\$11,900,247)
4.60%						
4.50%						

Table 4: Estimated Income Tax Loss by Fiscal Year

Tax Rate	Tax Year (Fiscal Year)			
	2026 (FY27)		2027 (FY 28)	
	Low	High	Low	High
5.30%				
4.95%	(\$799,734)	(\$12,533,239)	(\$799,734)	(\$12,533,239)
4.80%	(\$775,499)	(\$12,153,444)	(\$775,499)	(\$12,153,444)
4.70%	(\$759,343)	(\$11,900,247)	(\$759,343)	(\$11,900,247)
4.60%	(\$743,187)	(\$11,647,050)	(\$743,187)	(\$11,647,050)
4.50%			(\$727,031)	(\$11,393,854)

Summary

Therefore, B&P estimates that this proposal may reduce TSR and GR by an amount that could exceed \$20,888,190 [(\$995,167 corporate TY22 + \$3,247,418 individual TY22) + (\$4,112,366 corporate TY23 + \$12,533,239 individual TY23)] in FY24, depending on whether other federal/state/local grants and loans qualify under this exemption.

Once SB 3 (2022) has fully implemented, B&P estimates that this proposal could reduce TSR and GR by an amount that could exceed \$989,437 (\$262,406 corporate + \$727,031 individual) to \$15,506,220 (\$4,112,366 corporate + \$11,393,854 individual), depending on whether other federal/state/local grants and loans qualify under this exemption. Table 5 shows the estimated impact by fiscal year.

Table 5: Estimated Total Revenue Loss by Fiscal Year

Tax Rate	FY 2024	FY 2025		FY 2026	
		Low	High	Low	High
5.30%	(\$20,888,190)				
4.95%		(\$1,062,140)	(\$16,645,605)	(\$1,062,140)	(\$16,645,605)
4.80%		(\$1,037,905)	(\$16,265,810)	(\$1,037,905)	(\$16,265,810)
4.70%				(\$1,021,749)	(\$16,012,613)
4.60%					
4.50%					

Table 5 : Estimated Revenue Loss by Fiscal Year

Tax Rate	FY 2027		FY 2028	
	Low	High	Low	High
4.95%	(\$1,062,140)	(\$16,645,605)	(\$1,062,140)	(\$16,645,605)
4.80%	(\$1,037,905)	(\$16,265,810)	(\$1,037,905)	(\$16,265,810)
4.70%	(\$1,021,749)	(\$16,012,613)	(\$1,021,749)	(\$16,012,613)
4.60%	(\$1,005,593)	(\$15,759,416)	(\$1,005,593)	(\$15,759,416)
4.50%			(\$989,437)	(\$15,506,220)

**Oversight** notes for the purpose of this fiscal note, Oversight will note DOR’s and B&P’s estimated impact for this proposal.

<u>FISCAL IMPACT – State Government</u>	FY 2024 (10 Mo.)	FY 2025	FY 2026
<b>GENERAL REVENUE</b>			
<u>Revenue Reduction</u> - §143.121 - Broadband Federal Grant Money Subtraction	(\$20,888,190)	<u>(\$1,037,905 to \$16,265,810)</u>	<u>(\$1,037,905 to \$16,265,810)</u>
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE</b>	<b><u>(\$20,888,190)</u></b>	<b><u>(\$1,037,905 to \$16,265,810)</u></b>	<b><u>(\$1,037,905 to \$16,265,810)</u></b>

<u>FISCAL IMPACT – Local Government</u>	FY 2024 (10 Mo.)	FY 2025	FY 2026
	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>

FISCAL IMPACT – Small Business

Some small businesses which are pass though entities might be eligible for the deduction provided in this bill.

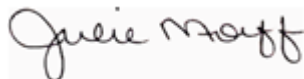
FISCAL DESCRIPTION

Beginning January 1, 2022, this bill exempts from a taxpayer's Missouri adjusted gross income 100% of any federal grant moneys received by the taxpayer for the purpose of providing or expanding access to broadband Internet to areas of the state deemed to be lacking such access.


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

SOURCES OF INFORMATION

Department of Revenue  
Office of Administration - Budget and Planning



Julie Morff  
Director  
March 7, 2023



Ross Strobe  
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March 7, 2023