

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 0974S.02P  
 Bill No.: Perfected SS for SB 25  
 Subject: Taxation and Revenue - Income  
 Type: Original  
 Date: February 1, 2023

Bill Summary: This proposal authorizes an income tax deduction for certain federal grant money.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
General Revenue*	(\$16,645,605)	(\$1,037,905 to \$16,265,810)	(\$1,037,905 to \$16,265,810)
<b>Total Estimated Net Effect on General Revenue</b>	<b>(\$16,645,605)</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 this proposal would allow taxpayers that receive federal grant money for the purpose of providing or expanding access to broadband, to subtract 100% of the amount received from their Missouri adjusted gross income. This proposal would be effective August 28, 2023, so available for the 2023 tax year. The first time these grants would be reported on the tax return is January 2024 (FY 2024).

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 would 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

Therefore, DOR assumes 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.

Table 3: 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

Therefore, DOR would assume they could reduce corporate collections in tax year 2024 by \$262,406 ( $\$6,560,151 \times 4\%$  tax rate) on the low side and \$4,112,366 ( $\$102,809,148 \times 4\%$  tax rate) on the high side. Additionally, DOR could expect to reduce the individual income tax collections in tax year 2024 by \$798,734 ( $\$16,156,236 \times 4.95\%$  tax rate) on the low side and \$12,533,239 ( $\$253,196,747 \times 4.95\%$ ) on the high side.

However, based on actual revenue collections, DOR projects the individual income tax rate is estimated to fall to 4.5% by 2028, DOR could expect the individual income tax collections in tax

year 2028 to be \$727,031 ( $\$16,156,236 * 4.5\%$  tax rate) on the low side and \$11,393,854 ( $\$253,196,747 * 4.5\%$ ) on the high side.

This proposal could reduce general revenue and total state revenue by the following:

Table 4: Estimated Revenue Loss by Year\*

Tax Rate	Tax Year (Fiscal Year)				
	2023 (FY24)	2024 (FY25)		2025 (FY26)	
		Low	High	Low	High
4.95%	(\$16,645,605)	(\$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 4 (cont.): Estimated Revenue Loss by Year\*

Tax Rate	Tax Year (Fiscal Year)			
	2026 (FY27)		2027 (FY 28)	
	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)

\* Assuming the scheduled GR dependent triggers under SB 3 (2022) will be met consecutively each year.

This will require DOR update their instructions for the MO-1040 and the MO-A forms; however, that can be done with existing resources as part of their normal year-end work.

In response to a previous version of SB 25, officials from the **Office of Administration - Budget and Planning (B&P)** noted this proposal would exempt all federal grant money received for providing or expanding broadband internet. B&P notes that this proposal would become effective August 28, 2023. Therefore, B&P assumes that the tax exemption would be available for tax year 2023, with the first revenue impact occurring in FY24.

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 4.95% 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

Therefore, B&P estimates that 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.

B&P estimates that 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%).

Therefore, B&P estimates that this proposal may reduce TSR and GR by \$16,645,605 (\$4,112,366 corporate + \$12,533,239 individual) in FY24. Once SB 3 (2022) has fully implemented, B&P estimates that this proposal could reduce TSR and GR by \$989,437 (\$262,406 corporate + \$727,031 individual) to \$15,506,220 (\$4,112,366 corporate + \$11,393,854 individual). Table 3 shows the estimated impact per year and top individual income tax rate.

Table 3: Estimated Revenue Loss by Year

Tax Rate	Tax Year (Fiscal Year)				
	2023 (FY24)	2024 (FY25)		2025 (FY26)	
		Low	High	Low	High
4.95%	(\$16,645,605)	(\$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 3 (cont.): Estimated Revenue Loss by Year

Tax Rate	Tax Year (Fiscal Year)			
	2026 (FY27)		2027 (FY 28)	
	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)

\* Assuming the scheduled GR dependent triggers under SB 3 (2022) will be met consecutively each year.

**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 - §143.121 - Broadband Federal Grant Money Subtraction</u>	(\$16,645,605)	<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>(\$16,645,605)</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

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

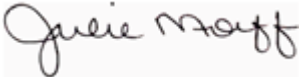
This act exempts from a taxpayer's Missouri adjusted gross income one hundred percent of any federal grant moneys received by the taxpayer for the purpose of providing or expanding access to broadband internet to areas of the state lacking such access, to the extent such grant money is included in the taxpayer's federal adjusted gross income.

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



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February 1, 2023



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February 1, 2023