COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1210S.05P
Bill No.: Perfected SS for SCS for SB 92
Subject: Economic Development; Department of Economic Development; Tax Credits
Type: Original
Date: April 4, 2023

Bill Summary: This proposal modifies provisions relating to tax credits.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
General Revenue Fund*	($227,761) to ($177,761)	($244,377) to ($194,377)	($248,740) up to ($16,198,740)
Total Estimated Net Effect on General Revenue	**($227,761) to ($177,761)**	**($244,377) to ($194,377)**	**($248,740) up to ($16,198,740)**

*Oversight reflects the program's $16 million annual cap on tax credit issuance beginning in FY 2026. Additionally, the total reflects changes proposed in SA 1 - $1.5 million increase in maximum cap beginning FY 2024, as proposed in Section 135.778. 3 and one time DOR cost (FY 2024) for website and computer updates. Oversight assume SA 2 has no fiscal impact.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
Total Estimated Net Effect on Other State Funds	**0**	**0**	**0**

Numbers within parentheses: () indicate costs or losses.

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

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
General Revenue Fund	2 FTE	2 FTE	2 FTE
Total Estimated Net Effect on FTE	**2 FTE**	**2 FTE**	**2 FTE**

☒ 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
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

In response to the previous version of the bill, officials from the **Department of Economic Development (DED)** noted:

Section 620.3500 creates the "Missouri Rural Workforce Development Act".

This proposed legislation requires DED to accept applications from "rural funds" that seek to have an equity investment certified as a "capital investment" eligible for tax credits. A "Rural Fund" is any entity certified by DED under this proposed legislation. A "Capital Investment" is an investment in a rural fund by a rural investor that is acquired after the effective date of this proposed legislation at its original issuance solely in exchange for cash, has one hundred percent (100%) of its cash purchase price used by the rural fund to make qualified investments in eligible businesses located in this state by the third anniversary of the initial credit allowance date, and is designated by the rural fund as a capital investment and certified by DED as a capital investment.

DED notes, upon making a capital investment, a rural investor shall have a vested right to a credit against the investor's state tax liability in an amount equal to the applicable percentage for such credit allowance date multiplied by the purchase price paid to the rural fund for the capital investment. DED states that no eligible business that receives a qualified investment, or any affiliates of such eligible business, shall directly or indirectly own or have the right to acquire an ownership interest in a rural fund.

The program will automatically sunset on 08/28/2029 unless reauthorized by an act of the general assembly.

DED will need to hire 2.0 FTE to administer the program. There will be an estimated cost of $16M per year. Impact to revenue for tax credits starts in FY26 since applicable percentage for first two credits allowance dates are zero. FTE impact starts in FY24.

Oversight will include DED's FTE costs, as reported by DED, less the costs reported for in-state and out-of-state travel, as this proposed legislation does not require DED to inspect or audit any site(s).

Officials from the **Department of Commerce and Insurance (DCI)** assume the proposal, specifically Section(s) 620.3500 to 620.3530 could affect their agency.

A potential unknown decrease of premium tax revenues (up to the tax credit limit established in the bill) in FY2024, FY2025 and FY2026 as a result of the creation of the Missouri Rural Workforce Development Act 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**, for fiscal note simplification purposes, assumes all credits will be taken against income tax liabilities.

The department will require minimal contract computer programming to add this new tax credit to the premium tax database and can do so under existing appropriation. However, should multiple bills pass that would require additional updates to the premium tax database, the department may need to request more expense and equipment appropriation through the budget process.

Oversight notes additional staff and expenses are not being requested by DCI with this single proposal, but if multiple proposals pass during the legislative session which require form reviews, DCI will need to request additional staff to handle the increase in workload. Therefore, Oversight will reflect the no fiscal impact assumed by DCI for fiscal note purposes.

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

<u>Sections 620.3500 – 620.3530 Missouri Rural Workforce Development Act</u>

This proposal would add new sections 620.3500 to 620.3530, known as the "Missouri Rural Workforce Development Act." It would be administered by DED. DOR is not mentioned in the proposal, but would be responsible for processing the tax credits claimed by taxpayers on returns and coordinate, as necessary, with DED.

Section 620.3515 sets the annual cap for the tax credit at $16 million. The credits are not refundable or sellable.

Section 620.3520 - Authorizes the tax credit, not exceeding the amount of the rural investor's income tax for the year in which the credit is claimed. Unused portions of the credit may be carried forward to the next five tax years but may not be carried back.

Section 620.3520.3 - Sets forth the circumstances under which DED may recapture from a rural investor that claimed the credit. Section 620.3520.4, provides that recaptured credits are to be re-distributed, pro rata, to credit applicants whose allocations were previously reduced. They assume that DED would notify DOR of any recaptured credits. DOR would then recalculate the taxpayer's return and bill the taxpayer for any shortcomings. DOR assumes they could absorb this duty with existing staff should it be necessary for DED to do a recapture of credits.

This proposal would become effective on August 28, 2023. This proposal states that a capital investment is any equity investment in a rural fund by a rural investor and that investment must be made AFTER the effective date of this proposal. After August 28, 2023 potential investors could make the required investments and then file an application with DED along <u>with a non-</u>

refundable $5,000 application fee. Upon certification by DED, the investors would be eligible to receive the tax credit for the six credit allowance dates. Those credit allowance dates are the date of certification and each of the five anniversary dates thereafter. Based on the requirements of the investment, for fiscal note purposes DOR will assume the first date of certification will be January 1, 2024.

This proposal states the tax credit is based on an applicable percentage of the investment. The percentage for the first two years is zero (0%) and each of the next four years the percentage is fifteen percent (15%). Therefore with a certification date of January 1, 2024, the first two years no credits would be issued. Starting January 1, 2026 the first credits would be issued. They could potentially (depending on when issued) be redeemed in that same year.

This will be a loss to general revenue of up to the $16 million cap annually starting in FY 2026.

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 it can absorb this credit with existing staff. Should the number of redemptions/correspondence justify the hiring of additional FTE, the Department will request those FTE 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 notes that DOR assume the proposal will function as follows:

A taxpayer qualifies for a $1 million dollar investment on January 1, 2024. Here is the estimated amount of credit received and when.

YEAR	CREDIT ALLOWANCE DATE	CREDIT AMOUNT
1/1/2024	1	$0
1/1/2025	2	$0
1/1/2026	3	$150,000 ($1,000,000 x 15%)
1/1/2027	4	$150,000 ($1,000,000 x 15%)
1/1/2028	5	$150,000 ($1,000,000 x 15%)
1/1/2029	6	$150,000 ($1,000,000 x 15%)

This will be a loss to general revenue of up to the $16 million cap annually starting in FY 2026.

Oversight notes this proposed legislation would award tax credits to rural investors who have made an equity investment in a rural fund so long as such equity investment is later certified by the Missouri Department of Economic Development as a capital investment.

In order for an equity investment to be certified as a capital investment, a rural fund must apply with the Missouri Department of Economic Development to have the equity investment certified as a capital investment. The applicant must complete an application including the amount of capital investment requested, a copy of the applicants, or the affiliate of the applicant's, license as a Rural Business Investment Company (RBIC) under 7 U.S.C. Section 2009cc (U.S.D.A Rural Business Investment Program) or as a Small Business Investment Company (SBIC) under 15 U.S.C. Section 681 (SBA Small Business Investment Program), evidence that the applicant or affiliates of the applicant have invested at least a) one hundred million dollars ($100,000,000) in nonpublic companies located in counties within the United States with a population of less than fifty thousand, or b) at least thirty million dollars inn nonpublic companies located in Missouri. The business plan that includes a revenue impact assessment, and a nonrefundable application fee of $5,000.

Per the latest available data from the Small Business Investment Company Program Overview, as of September 30, 2021, there were approximately 307 privately owned and managed SBA licensed SBICs.

Table 1: Program Composition of the Types of Operating SBICs

Type of Operating SBICs	**FY End 2017**	**FY End 2018**	**FY End 2019**	**FY End 2020**	**FY End 2021**
Total Number of Type of Operating SBICs	**315**	**305**	**300**	**302**	**307**
Number of Debenture SBICs	227	227	224	232	235
Number of Participating Security SBICs	33	25	22	12	9
Number of Bank-Owned or Non-Leveraged SBICs	47	47	48	52	56
Number of Specialized SBICs	8	6	6	6	7

Per correspondence received from the United States Department of Agriculture in February 2021, there are approximately 10 certified RBICs. In addition, there have been four (4) investments made in Missouri totaling almost $12,000,000.

Oversight assumes SBICs and RBICs are nationally oriented; various companies may focus on specific regions but no one entity is specific to the State of Missouri.

Oversight notes this proposed legislation states that a capital investment is any equity investment in a rural fund by a rural investor which, is acquired **after** the effective date of this proposed legislation.

Oversight notes this proposed legislation would require applicants under this proposed legislation to submit an application to the Missouri Department of Economic Development accompanied with a nonrefundable $5,000 application fee.

Oversight notes this proposed legislation does not specifically state where the application fee(s) shall be deposited. For the purpose of this fiscal note, Oversight will assume such application fee(s) will be deposited into GR.

Oversight notes the Missouri Department of Economic Development shall begin accepting applications ninety days after the effective date of this proposed legislation. Therefore, Oversight assumes applications, accompanied with the nonrefundable fee of $5,000 could be submitted as early as Fiscal Year 2024.

Therefore, **Oversight** will report a revenue gain to GR equal to $0 (no applications/fee(s) submitted) or $5,000 (one application/fee is submitted) up to $1,585,000 ($5,000 * 307 (# of SBICs) + 10 (# of certified RBICs)) beginning in Fiscal Year 2024.

Oversight notes, once an equity investment is certified as a capital investment, the rural investor shall have a vested right to a tax credit to be issued to be used against the rural investor's state income tax liability that may be utilized on each credit allowance date of such capital investment in an amount equal to the applicable percentage for such credit allowance date multiplied by the purchase price paid to the rural fund.

Oversight, then, assumes the following example describes a tax credit allocation under this proposed legislation:

If Company A were to have $100,000,000 certified as a capital investment on January 1, 2024, Company A's credit allowance date(s) would be: January 1, 2024 (0%), January 1, 2025, (0%) January 1, 2026 (15%), January 1, 2027 (15%), January 1, 2028 (15%), and January 1, 2029 (15%).

Oversight assumes, then, Company A would **not** receive a tax credit (a tax credit equal to zero percent (0%) multiplied by the amount certified as a capital investment) on January 1, 2024 and January 1, 2025.

Each January thereafter, with the last January being January 1, 2029, Company A would receive a tax credit equal to fifteen percent (15%) of the amount certified as a capital investment; or $15,000,000.

Oversight assumes, then, Company A would receive a **total** of $60,000,000 in tax credits over the course of six (6) years to be used throughout a total of eleven (11) years.

Oversight notes the Missouri Department of Economic Development shall begin accepting applications ninety days after the effective date of this proposed legislation. Therefore, Oversight assumes applications could be submitted as early as Fiscal Year 2024.

Oversight assumes, then, based on the tax credit allocation equation created under this proposed legislation, a rural investor could receive a tax credit in an amount greater than zero ($0) beginning two (2) years after the initial certification date; Fiscal Year 2026.

Therefore, **Oversight** estimates the tax credit provision of this proposed legislation could result in a revenue <u>reduction</u> equal to $0 (no certified capital investments) <u>up to $16,000,000</u> (tax credit authorization cap) beginning in Fiscal Year 2026.

Oversight notes this proposed legislation would allow for the recapture of tax credits issued to taxpayers provided rural fund(s) do not meet the requirements established in this proposed legislation.

Oversight notes this proposed legislation states that recaptured tax credits would be reverted to the Missouri Department of Economic Development and be reissued to applicants whose capital investment allocations were reduced in accordance with the application process (authorization cap).

Oversight further notes this proposed legislation does not specifically state where the payment of recaptured tax credits would be deposited. For the purpose of this fiscal note, Oversight will assume recaptured tax credit payments will be deposited into GR with the assumption that the Missouri Department of Economic Development will distribute the funds for further tax credit authorization(s).

Oversight notes tax credits authorized may be recaptured as early as the third anniversary date. Therefore, Oversight assumes this could be as early as Fiscal Year 2026.

Oversight is unable to determine the actual fiscal impact of the tax credit recapture provision. Therefore, for the purpose of this fiscal note, Oversight will report a revenue <u>gain</u> equal to “$0 to Unknown” and a revenue reduction equal to “$0 or Unknown” beginning in Fiscal Year 2026.

Oversight notes the provisions of this proposed legislation state the Missouri Department of Economic Development shall not accept any new applications for tax credits after 2029.

<u>Senate Amendment 1</u> - Modifies provisions relating to a tax credit for the production of ethanol & biodiesel fuel

<u>Section 135.772 Ethanol Tax Credit</u>

Officials from the **Department of Revenue (DOR)** note HB 3 adopted in the special session of 2022, created this new tax credit for a retail dealer that sells ethanol fuel starting with tax year 2023. The tax credit was to be equal to five cents ($0.05) per gallon.

This tax credit was to begin on January 1, 2023, with the first tax returns claiming the credit being filed starting January 2024 (FY 2024). The tax credit was established with a $5 million cap annually.

This proposal adds language clarifying which taxpayers in calendar year 2023 would qualify for the credit. DOR does not estimate this will have any additional impact that was not already accounted for in HB 3's fiscal note.

At this time, the Department doesn't have any information on the number of retailers that may apply for this credit as the filing period has just opened.

Section 135.775 Biodiesel Retailers Tax Credit

In response to the previous version of similar proposal, SB 519 – 2023, officials from **Office of Administration – Budget & Planning (B&P)** assumed this proposal would remove language allowing this credit and the Biodiesel Producer Tax Credit (Section 135.778) to share their annual authorization caps. Currently the two programs have separate caps; however, if the maximum amount is authorized under one program, but not the other, the maxed out program can utilize the remaining amount of authorizations under the non-maxed out program.

B&P notes that this proposal does not change the $16 million authorization limit for this credit program. Therefore, B&P estimates that this section will not impact TSR or GR.

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

HB 3 adopted in the special session of 2022, created this new tax credit for a retail dealer that sells biodiesel fuel starting with tax year 2023. To qualify as biodiesel fuel it must be a blend of diesel and biodiesel between 5% and 20% for on-road and off-road diesel-fuel vehicle use. Proof that that biodiesel meets ASTM International specifications will need to be provided to the Department. The tax credit was to be equal to two cents ($0.02) per gallon on biodiesel blend of 5% but no more than 10% mix or five cents ($0.05) per gallon sold on a biodiesel blend in excess of 10%.

This tax credit was to begin on January 1, 2023, with the first tax returns claiming the credit being filed starting January 2024 (FY 2024). The tax credit was established with a $16 million cap annually. This credit was established that allowed the cap if reached the credit would be apportioned among all applicants. Additionally, there was a provision that allowed credits not distributed in a year to be rolled over to the biodiesel producers credit for use.

This proposal adds language clarifying which taxpayers in calendar year 2023 would qualify for the credit. DOR does not estimate this change will have any additional impact that was not already accounted for in HB 3's fiscal note.

At this time, the Department doesn't have any information on the number of retailers that may apply for this credit as the filing period has just opened.

Section 135.778 Biodiesel Producers Tax Credit

In response to the previous version of similar proposal, SB 519 – 2023, officials from **Office of Administration – Budget & Planning (B&P)** assumed this proposal would remove the $4 million authorization cap. As authorizations would no longer be limited, this proposal would also remove language apportioning the credit redemptions and language allowing this program and Section 135.775 to share tax credit authorization amounts.

B&P notes that this credit started for tax year 2023, and annual returns have not yet been filed. In addition, as this is a new program it is likely that redemptions will increase over time. Therefore, B&P estimates that this provision may have an unknown, could be significant, negative impact on TSR and GR starting in FY24.

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

HB 3 adopted in the special session of 2022, created this new tax credit for a producer of biodiesel fuel. Starting January 1, 2023, it would allow a credit against their state income tax liability in an amount of $0.02 per gallon of biodiesel fuel produced by a Missouri biodiesel producer. The Department noted when the bill was being discussed there were currently 6 producers in the state.

When established the credit had a $4 million annual cap. Additionally, the bill allowed that if the credit cap was reached then the credit would be apportioned among all applicants. It also contained a provision that if the $4 million cap on this credit was not fully used, then the remaining portion of the cap could be distributed to the retailers on their credit.

This proposal adds language clarifying which taxpayers in calendar year 2023 would qualify for the credit. This change will not have any additional fiscal impact.

This proposal removes the $4 million annual cap, the apportionment language in the credit and the provision that allows the credit to be shared with the retailer's credit. This proposal then increases the cap to $5.5 million. This proposal could potentially expand the number of credits that can be issued annually by $1.5 million. At this time, the Department doesn't have any information on the number of producers that may apply for this credit as the filing period has just opened. DOR assume this could result in an increase in the number of credits which would result in an additional $1.5 million loss to general revenue.

These changes will require updating the website, forms and computer programming at a cost of $7,193.

Oversight notes that this proposal, Section 135.778 3 removes the $4 million maximum cap allowing for all applicants who are able to claim the credit and allows for up to $5.5 million cap.

Oversight notes the officials from the DOR & B&P do not have any current information regarding the tax credit claimed under the HB 3 – 2022, which was passed by the general assembly, and signed by the Governor. Therefore, **Oversight** will reflect a range from $0 (reflecting the original $4 million cap was not surpassed by the change in this proposal) to negative $1.5 million ($5.5 million – $4 million) in a possible additional credits claimed in the fiscal note.

Additionally, Oversight will note a DOR cost associated with the website updates, forms and computer programming as one time cost $7,193 in FY 2024.

Senate Amendment 2 – Clarifies certain exclusions, and a language clarification, in regards to the tax credit in Section 620.3505

Officials from the **Department of Revenue (DOR)** assume the proposal will have no additional fiscal impact.

Oversight assumes the proposed changes will have no fiscal impact on general, other state, local, or federal revenue. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero additional impact in the fiscal note for this amendment.

Overall Bill:

Officials from the **Department of Higher Education and Workforce Development**, the **Department of Labor and Industrial Relations**, the **Missouri Department of Agriculture**, the **City of Kansas City**, and the **City of Springfield** 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.

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.

In response to the previous version of the bill, 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
GENERAL REVENUE FUND			
Revenue Gain- Section 620.3510 – Nonrefundable Application Fee of $5,000 – p. 6	$0 or $5,000 up to $1,555,000	$0 or $5,000 up to $1,555,000	$0 or $5,000 up to $1,555,000
Revenue Reduction – Section 620.3515 – Tax Credit For Certified Capital Investment(s) -- (p. 6-8)	$0	$0	$0 up to ($16,000,000)
Revenue Gain – Transfer In – Section 620.3520. 3. – Recapture of Tax Credits From Rural Investor (p. 7-8)	$0	$0	$0 to Unknown
Revenue Loss – Transfer Out – Section 620.3520 – Recaptured Tax Credits (Re)Allocated to Missouri DED (p. 7-8)	$0	$0	$0 to (Unknown)

<u>FISCAL IMPACT – State Government (continued)</u>	FY 2024 (10 Mo.)	FY 2025	FY 2026
<u>Cost</u> – Section(s) 620.3510, 620.3515 & 620.3520 – 2 FTE DED – (p.3)			
Personnel Services	($124,440)	($152,315)	($155,361)
Fringe Benefits	($72,530)	($88,153)	($89,292)
Equipment & Expense	($28,598)	($8,909)	($9,087)
Total Cost	<u>($225,568)</u>	<u>($249,377)</u>	<u>($253,740)</u>
FTE Change – DED	2 FTE	2 FTE	2 FTE
<u>SA 1</u> - Reduction in Revenue – Section 135.778. 3 – changed cap from $4 million to $5.5 million p. 10-11	$0 Up to ($1,500,000)	$0 Up to ($1,500,000)	$0 Up to ($1,500,000)
SA 2 – DOR Cost Section 135.778. 3 Computer & Website Updates p. 10 - 11	<u>($7,193)</u>	<u>$0</u>	<u>$0</u>
ESTIMTED NET EFFECT ON GENERAL REVENUE FUND	**<u>($227,761) to ($177,761)</u>**	**<u>($244,377) to ($194,377)</u>**	**<u>($248,740) up to ($16,198,740)</u>**

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

FISCAL IMPACT – Small Business

This proposed legislation could positively impact any small business that qualifies for a tax credit under this proposed legislation as such small business could reduce or eliminate such small business's state tax liability.

FISCAL DESCRIPTION

TAX CREDITS FOR CERTAIN FUELS
Current law authorizes a tax credit for all tax years beginning on or after January 1, 2023, for the sale of higher ethanol blend fuel and biodiesel fuel and for the production of biodiesel fuel. This act provides that any taxpayer with a tax year beginning prior to January 1, 2023, but ending during the 2023 calendar year shall be allowed a tax credit for the amount of fuel sold or produced during the portion of such tax year that occurs during the 2023 calendar year.

Additionally, current law authorizing a tax credit for the production of biodiesel fuel limits the maximum amount of tax credits that may be authorized in a fiscal year to $4 million. This act increases such annual limit to $5.5 million and removes a provision requiring the Department of Revenue to apportion tax credits among biodiesel producers applying for such tax credits. (Sections 135.772 to 135.778)

RURAL ACCESS TO CAPITAL ACT

This act establishes the "Missouri Rural Access to Capital Act", which provides a tax credit for certain investments made in businesses located in rural areas in this state.

This act allows investors to make capital investments in a rural fund, as defined in the act. Such investors shall be allowed a tax credit for a period of six years beginning with the year the investor made a capital investment. The tax credit shall be equal to a percentage of the capital investment. The percentage shall be zero for the first two years, and fifteen percent for the subsequent four years. Tax credits issued under the act shall not be refundable, but may be carried forward to any of the five subsequent tax years, as described in the act. No more than $16 million dollars in tax credits shall be authorized in a given calendar year.

A rural fund wishing to accept investments as capital investments shall apply to the Department of Economic Development. The application shall include the amount of capital investment requested, a copy of the applicant's license as a rural business or small business investment company, evidence that the applicant has made at least $100 million in investments in nonpublic companies located in counties throughout the United States with a population less than fifty thousand, evidence that the applicant has made at least $30 million in investments in nonpublic companies located in Missouri, and a business plan that includes a revenue impact statement projecting state and local tax revenue to be generated by the applicant's proposed qualified investments, as described in the act. The rural fund shall also submit a nonrefundable application fee of $5,000.

The Department shall grant or deny an application within sixty days of receipt. The Department shall deny an application if such application is incomplete or insufficient, if the revenue impact assessment does not demonstrate that the business plan will result in a positive economic impact on the state over a ten year period, or if the Department has already approved the maximum amount of capital investment authority.

Rural funds shall use capital investments made by investors to make qualified investments, as defined in the act, in eligible businesses. An eligible business is a business that, at the time of the qualified investment, has fewer than two hundred fifty employees, has its principal business operations in the state, is engaged in certain industries, as described in the act, does not knowingly employ any individual who is unlawfully present in this country, and is located or has committed to locate in a rural area.

The Department may recapture tax credits if the rural fund does not invest sixty percent of its capital investment authority in qualified investments within two years of the date of the capital investment, and one hundred percent of its capital investment authority within three years, if the rural fund fails to maintain qualified investments equal to ninety percent of its capital investment authority in years three through six, as described in the act, if prior to exiting the program or thirty days after the sixth year, the rural fund makes a distribution or payment that results in the fund having less than one hundred percent of its capital investment authority invested in qualified investments, or if the rural fund violates provisions of the act.

Rural funds shall submit annual reports to the Department, including the name and location of each eligible business receiving a qualified investment, the total number of new jobs, maintained jobs, new payroll, maintained payroll, new revenue, and maintained revenue by each eligible business receiving a qualified investment, and any other information required by the Department, as described in the act.

At any time after the sixth anniversary of the capital investment, a rural fund may apply to the Department to exit the program. The Department shall respond to such application within fifteen days. At the time a rural fund exits the program, it shall be required to make a distribution to the state, not to exceed ten percent of the amount of tax credits received, if the amount of state and local tax benefits generated by the rural fund's qualified investments are less than the amount of tax credits distributed to the rural fund.

This act shall sunset on August 28, 2029, unless reauthorized by the General Assembly. (Sections 620.3500 to 620.3530)

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 Labor and Industrial Relations
Office of the Secretary of State
Missouri Department of Agriculture
Department of Economic Development
Department of Commerce and Insurance
Department of Higher Education and Workforce Development
Missouri Department of Agriculture
City of Kansas City
City of Springfield

Julie Morff
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April 4, 2023