

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3052S.01I
 Bill No.: SB 1041
 Subject: Tax Credits
 Type: Original
 Date: January 5, 2024

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

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
General Revenue Fund*	Up to (\$6,188,789)	Up to (\$6,188,789)	Up to (\$6,188,789)
Total Estimated Net Effect on General Revenue	Up to (\$6,188,789)	Up to (\$6,188,789)	Up to (\$6,188,789)

*Oversight reflects the reduction in GR due to changes in Section(s) 32.100-32.125 & 135.460, allowing 70% contribution redemptions (up from current percentages). Oversight notes the overall changes will not have an effect beyond currently established maximum cap(s) for the above-mentioned tax credits; however the increased percentages of taxpayers receive in tax credits for their donations may increase donations, and therefore increase tax credit issuances.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
Total Estimated Net Effect on FTE	0	0	0

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

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

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

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

Section 32.115 - Affordable Housing and Neighborhood Assistance

This proposal would increase the value of the affordable housing and neighborhood assistance tax credits to 70% of each contribution. B&P notes that the three-year average redemption amount for affordable housing was \$5,485,475 and the three-year average redemption amount for neighborhood assistance was \$8,599,528 from FY21 - FY23. B&P further notes that had the tax credits been set at 70% of donations, redemptions would have been \$6,981,513 for affordable housing and \$12,039,339 for neighborhood assistance. Therefore, this provision could reduce GR by \$4,935,850 annually beginning in FY25.

Section 135.460 – Youth Opportunities

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 \$3,132,348 from FY21 – FY23. B&P further notes that had the tax credits been set at 70% of donations, redemptions would have been \$4,385,288. Therefore, B&P estimates that this provision could reduce GR by \$1,252,939 annually beginning in FY25.

Officials from the **Department of Revenue** note:

Section 32.115 Affordable Housing and Neighborhood Assistance Program

Affordable Housing Tax Credit

The Affordable Housing Tax Credit program currently provides a tax credit for 55% of a contribution made. The credit currently has an \$11 million cap. For informational purposes we are providing the amount authorized, issued and redeemed for this credit.

Year	Authorized	Issued	Total Redeemed
FY 2023	\$8,932,400.00	\$4,174,401.00	\$8,716,793.00
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
TOTALS	\$86,451,241.00	\$77,290,376.00	\$70,908,634.40

This proposal increases the percentage of the contribution from 55% 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 \$5,485,474.

Increasing the tax credit percent to seventy percent would have resulted in \$6,981,513 in tax credits being issued. An increase of \$1,496,038. 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 \$11 million, this is not expected to have any additional impact to the state.

Neighborhood Assistance Tax Credit Program

This proposal also 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. For informational purposes we are providing the amount authorized, issued and redeemed for this credit.

Year	Authorized	Issued	Total Redeemed
FY 2023	\$15,028,834.00	\$12,330,085.00	\$9,107,306.80
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	\$165,192,610.00	\$131,906,377.75	\$116,518,849.79

This proposal increases the percentage of the contribution from 50% to 70% for the amount of the tax credit. An increase of \$3,439,811. 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 \$8,599,528.

Section 135.460 Youth Opportunities Tax Credit

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 we are providing the amount authorized, issued and redeemed for this credit.

Year	Authorized	Issued	Total Redeemed
FY 2023	\$2,247,858.00	\$4,139,385.00	\$2,987,947.79
FY 2022	\$5,706,067.00	\$3,039,904.00	\$2,283,352.48
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	\$62,906,264.12	\$56,690,584.33	\$51,963,784.18

This proposal increases the percentage 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 \$3,118,570.

Increasing the tax credit percent to seventy percent would have resulted in \$4,365,998 in tax credits being issued. An increase of \$1,247,428. 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.

The Department will need to update our computer programs and forms for these changes. DOR estimate the total cost of the changes at \$8,923.

Oversight assumes the Department of Revenue (DOR) is provided with core funding to handle a certain amount of activity each year. Oversight assumes DOR could absorb the administrative 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.

Oversight notes Section 32.100 to 32.125 Neighborhood Assistance Act provides assistance to community-based organizations that enable them to implement community or neighborhood projects in the areas of community service, education, crime prevention, job training and physical revitalization. There is a cumulative maximum cap of \$32 million annually with individual program caps as follows:

- a) Section(s) 32.115 – Affordable Housing Assistance Program (AHAP) up to the same \$10 million cap. (If other tax credits, within the section, are not fully utilized this section can draw an additional \$1 million allowing the cap to reach \$11 million annually – as per Section 32.115 4.).
- b) Section 32.115 – Neighborhood Assistance Program (NAP) with a maximum cap of \$16 million.
- c) Section 135.460 - Opportunity Youth program with maximum cap of \$6 million.

Oversight notes the NAP program expenditures as follow:

	FY 2021 ACTUAL	FY 2022 ACTUAL	FY 2023 ACTUAL
Certificates Issued (#)	1,240	1,371	1,387
Projects/Participants (#)	67	65	71
Amount Authorized	\$11,924,548	\$12,673,134	\$15,028,834
Amount Issued	\$9,048,913	\$11,113,006	\$12,330,085
Amount Redeemed	\$8,623,742	\$8,067,535	\$9,107,307

DED Form 14 attached in MOLIS (internal documents)

Oversight notes the 3 year average redemption was \$8,599,528 at 50% contribution percentage tax credit.

Oversight notes the 70% contribution tax credit would have allowed for a total of \$12,039,339 in the same period.

Oversight note that the difference between 50% and 70% contribution redemption would total to \$3,439,811 (\$12,039,339-\$8,599,528).

Oversight notes this proposal does not change the \$16 million maximum cap for NAP, instead increases the percentage 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 only the credit difference of \$3,439,811 to the general revenue in the fiscal note.

Oversight notes the AHAP program expenditures as follow:

	FY 2021 Actual	FY 2022 Actual	FY 2023 Actual
Certificates Issued (#)	127	298	203
Projects/Participants (#)	38	48	44
Amount Authorized	\$9,787,696	\$4,835,176	\$8,932,400
Amount Issued	\$3,592,427	\$10,482,025	\$4,174,401
Amount Redeemed	\$4,119,706	\$3,619,925	\$8,716,793

DED Form 14 attached in MOLIS (internal documents)

Oversight notes the Affordable Housing Assistance Tax Credit Program (AHAP) is an incentive for businesses and qualified individuals in Missouri to participate in the production of affordable housing for low-income families. The credit can be used by a business or qualified individual as a reduction in their state tax obligation. To receive the AHAP credit, a business or qualified individual must donate cash, professional services, or real or personal property to a non-profit organization whose primary purpose is to provide affordable housing for low-income families.

Oversight notes the 3 year average redemption was \$5,485,475 at 55% contribution percentage tax credit.

Oversight notes the 70% contribution tax credit would allow for a total of \$6,981,513 in the same period.

Oversight note that the difference between 50% and 70% contribution redemption would total to \$1,496,039 (\$6,981,513-\$5,485,475).

Oversight notes this proposal does not change the \$11 million maximum cap for AHAP, instead increases the percentage 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 only the credit difference of \$1,496,039 to the general revenue in the fiscal note.

Oversight notes the YOP program expenditures as follow:

	FY 2021 ACTUAL	FY 2022 ACTUAL	FY 2023 ACTUAL
Certificates Issued (#)	760	974	1,504
Projects/Participants (#)	33	36	13
Amount Authorized	5,288,870	\$5,706,067	\$2,247,858
Amount Issued	1,983,794	\$3,039,904	\$4,139,385
Amount Redeemed	4,084,410	\$2,324,687	\$2,987,948

DED Form 14 attached in MOLIS (internal documents)

Oversight notes the YOP is a contribution tax credit program, which broadens and strengthens opportunities for positive development and participation in community life for youth and discourages criminal and violent behavior. Individuals, businesses, and corporations having tax liability in Missouri are eligible to receive tax credits for qualified donations to approved YOP projects.

Oversight notes the 3 year average redemption was \$3,132,348 at 50% contribution percentage tax credit.

Oversight notes the 70% contribution tax credit would allow for a total of \$4,385,288 in the same period.

Oversight note that the difference between 50% and 70% contribution redemption would total to \$1,252,939 (\$4,385,288-\$3,132,348).

Oversight notes this proposal does not change the \$6 million maximum YOP cap, instead it increases the percentage 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 only the credit difference of \$1,252,939 to the general revenue in the fiscal note.

Officials from the **Department of Commerce and Insurance (DCI)** note:

Sections 32.115 and 135.460

A potential unknown decrease of premium tax revenues (up to the tax credit limit established in the bill) in FY2025, FY2026, and FY2027 as a result of the modification of provisions relating to benevolent tax credits. 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 modified tax credit.

Oversight notes, for purposes of this fiscal note, the fiscal note does not reflect the possibility that some of the tax credits could be utilized against insurance premium taxes. If this occurs, the loss in tax revenue would be split between the General Revenue Fund and the County Foreign Insurance Fund, which ultimately goes to local school districts.

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.

<u>FISCAL IMPACT – State Government</u>	FY 2025 (10 Mo.)	FY 2026	FY 2027
GENERAL REVENUE FUND			
<u>Revenue Reduction</u> – Section 32.100 – 32.125 – Neighborhood Assistance Program NPA (change in credit from 50% to 70%)	Up to (\$3,439,811)	Up to (\$3,439,811)	Up to (\$3,439,811)
<u>Revenue Reduction</u> – Section 32.115 – Affordable Housing Assistance Program AHAP (change in credit from 50% to 70%)	Up to (\$1,496,039)	Up to (\$1,496,039)	Up to (\$1,496,039)

FISCAL IMPACT – State Government	FY 2025 (10 Mo.)	FY 2026	FY 2027
Revenue Reduction – Section 135.460 – Youth Opportunity Program YOP (change in credit from 50% to 70%)	<u>Up to</u> <u>(\$1,252,939)</u>	<u>Up to</u> <u>(\$1,252,939)</u>	<u>Up to</u> <u>(\$1,252,939)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>Up to</u> <u>(\$6,188,789)</u>	<u>Up to</u> <u>(\$6,188,789)</u>	<u>Up to</u> <u>(\$6,188,789)</u>

<u>FISCAL IMPACT – Local Government</u>	FY 2025 (10 Mo.)	FY 2026	FY 2027
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT – Small Business

Small businesses that qualify for the credit may be positively impacted as a result of this proposal.

FISCAL DESCRIPTION

This act modifies provisions relating to benevolent tax credits.

NEIGHBORHOOD ASSISTANCE TAX CREDITS

Current law authorizes multiple tax credits for contributions made to and investments made for the purposes of providing physical revitalization, economic development, job training or education for individuals, community services, crime prevention, and affordable housing assistance, with such tax credits being equal to varying percentages of the contributions or investments made. This act sets each tax credit equal to 70% of the amount of such contributions or investments. (Section 32.115)

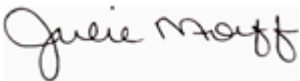
YOUTH OPPORTUNITIES AND VIOLENCE PREVENTION TAX CREDIT

Current law authorizes a tax credit in the amount of 50% of contributions made to certain youth programs. This act increases such tax credit to 70% of the amount of such contributions made. (Section 135.460)

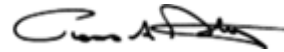
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Revenue
Office of Administration – Budget & Planning
Department of Commerce and Insurance
Department of Health and Senior Services
Office of the Secretary of State
Joint Committee on Administrative Rules



Julie Morff
Director
January 5, 2024



Ross Strobe
Assistant Director
January 5, 2024