COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3303S.01I
Bill No.: SB 1174
Subject: Tax Credits; Children and Minors
Type: Original
Date: January 31, 2024

Bill Summary: This proposal modifies provisions relating to a tax credit for contributions to certain child advocacy organizations.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
General Revenue Fund*	Could Exceed ($468,935)	Could Exceed ($460,012)	Could Exceed ($460,012)
Total Estimated Net Effect on General Revenue	**Could Exceed ($468,935)**	**Could Exceed ($460,012)**	**Could Exceed ($460,012)**

*Oversight has reflected the loss to general revenue stemming from the increase in the tax credit percentage from the current 50% to the proposed 70%. However, this proposal also removes the maximum cap of $1.5 million as of July 1, 2024; therefore, the fiscal impact could exceed the amounts reflected above.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
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 2025	FY 2026	FY 2027
Total Estimated Net Effect on All 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

In response to the similar proposal, HB 1343 2023, officials from the **Office of Administration – Budget & Planning (B&P)** noted:

This proposal would extend the sunset for the Champion for Children tax credit from 2025 to 2029. In addition, this proposal would increase the tax credit from 50% of a qualifying donation to 70% and removed the limit on the number of credits that can be redeemed each fiscal year.

Beginning with tax year 2023, the tax credit shall be equal to 70% of a qualifying donation. B&P notes that the three-year (FY20 - FY22) average redemptions were $1,017,396. In addition, this credit is currently equal to 50% of donations. Therefore, B&P estimates that increasing the tax credit percentage may reduce TSR and GR by $406,958 annually beginning in FY24 (when tax year 2023 returns are filed).

In addition, this proposal would remove the limit on the number of credits that may be redeemed each fiscal year, beginning in FY23. B&P notes that redemptions for this credit are currently under the existing $1.5 million redemption limit. Therefore, this provision may have an unknown negative impact on TSR and GR beginning with FY23.

Officials from the **Department of Revenue (DOR)** note:
The Champion of Children Tax Credit program began in 2013 and granted a tax credit equal to 50% of a donation made to a qualified agency. It originally had a $1 million cap and is an apportioned credit. It is administered by DOR.

The tax credit is able to be carried over to any subsequent 5 tax years. The credit is not assignable, refundable, transferrable, or can be sold. None of these things change with this proposal. The original credit contained a sunset clause which is extended per this proposal.

In 2018, the cap on the credit was increased starting July 1, 2019, to $1.5 million annually. For informational purposes DOR is showing the amount of credits redeemed annually over the last several years.

Fiscal Year	Apportioned Cap	Total Credit Redeemed
FY 2023	$1,500,000	$1,225,848
FY 2022	$1,500,000	$ 884,965
FY 2021	$1,500,000	$1,339,280
FY 2020	$1,500,000	$ 827,942
FY 2019	$1,000,000	$ 999,995
FY 2018	$1,000,000	$ 999,986
FY 2017	$1,000,000	$ 999,873
FY 2016	$1,000,000	$ 999,987

This proposal starting January 1, 2024, would increase the amount of the credit to 70% of the donated amount. It should be noted that these changes will not be effective until after August 28, 2024. This change in the percentage of the cap will be taken on the tax returns starting January 1, 2025 (FY 2025).

This proposal will also remove the cap on the program starting July 1, 2024. This will result in an additional loss to general revenue of an Unknown amount starting FY 2025.

Fiscal Year	Loss to General Revenue
FY 2025	(Unknown expected over $250,000)
FY 2026	(Unknown expected over $250,000)
FY 2027	(Unknown expected over $250,000)

It should be noted that due to the backdating of this proposal to January 1, 2024, many of the taxpayers will already have made their donation and received their tax credit certificate at the 50% rate. It is unclear if new certificates will be required to be issued at the 70% rate.

The proposal will require DOR to make changes to the MO-TC form ($7,138), and to update DOR's website and make changes to the DOR individual income tax computer system ($1,785). These changes are estimated to cost $8,923.

Oversight notes the DOR assume the proposal will have a direct impact on their organization due to DOR requirement to update the tax credit forms and update to the website. Oversight will reflect one-time costs for the DOR ITSD updates in amount of $8,923 in the fiscal note in FY 2025.

Oversight notes the last three-year average redemption totaling $1,150,031 in tax credits at 50% contribution amounts.

Oversight assumes at the 70% contribution, and three year average redemption amounts the taxpayers as shown above, the taxpayers will be able to receive $1,610,043 [($1,150,031/.5) x.70]

Oversight notes the proposal allows for removal of the maximum cap as of July 1 2024, therefore, the reflected amount above could exceed the tax credit redeemed effective FY 2025. Therefore, **Oversight** will reflect redemption <u>could exceed $460,012</u> ($1,610,043 - $1,150,031) in the fiscal note.

Oversight notes the proposal, Section 135.341.2, allows for this tax credit to begin January 1, 2024. Therefore, Oversight for purpose of this fiscal note, will note the full impact effective January 1, 2025.

Officials from the **Department of Social Services (DSS)** 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 DSS.

Officials from the **Oversight Division** assume the proposal will have no fiscal impact on their organization. The Oversight Division is responsible for providing a Sunset Report pursuant to Section 23.253 RSMo; however, the Oversight can absorb the cost with the current budget authority

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 2025 (10 Mo.)	FY 2026	FY 2027
GENERAL REVENUE			
Costs – 135.341 – the difference between 50% to 70% contributions (based on a 3-year historical average of redemptions) p.4	($460,012)	($460,012)	($460,012)
Costs – 135.341 – removal of the $1.5 million cap p.4	$0 or (Unknown)	$0 or (Unknown)	$0 or (Unknown)
Costs – 135.341 – DOR form and website updates p.4	($8,923)	$0	$0
ESTIMATED NET EFFECT ON GENERAL REVENUE	**Could Exceed ($468,935)**	**Could Exceed ($460,012)**	**Could Exceed ($460,012)**

FISCAL IMPACT – Local Government	FY 2025 (10 Mo.)	FY 2026	FY 2027
	$0	**$0**	**$0**

FISCAL IMPACT – Small Business

A direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

Current law authorizes a tax credit for contributions made to CASAs, child advocacy centers, and crisis care centers, as such terms are defined in the act, with such tax credit equal to fifty percent of the contribution. For all tax years beginning on or after January 1, 2024, this act increases the tax credit to seventy percent of the contribution.

Additionally, the current maximum amount of tax credits that may be authorized for contributions made to qualified agencies shall not exceed $1.5 million. For all fiscal years beginning on or after July 1, 2024, this act provides that the amount of tax credits that may be authorized by the act in a fiscal year shall not be limited.

This act changes the sunset date from December 31, 2025, to December 31, 2030, unless reauthorized by the General Assembly.

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 the Secretary of State
Joint Committee on Administrative Rules
Oversight Division

Julie Morff
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January 31, 2024

Ross Strope
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January 31, 2024