

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3392S.02I
Bill No.: SB 872
Subject: Taxation and Revenue - Income
Type: Original
Date: January 24, 2024

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

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
General Revenue	(\$4,242,585)	\$0 or (Unknown)	\$0 or (Unknown)
Total Estimated Net Effect on General Revenue	(\$4,242,585)	\$0 or (Unknown)	\$0 or (Unknown)

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

Section 143.121.3(13) Subtraction for Broadband Grants

Officials from the **Office of Administration - Budget and Planning (B&P)** note this proposal would expand the income tax exemption for federal broadband grants to include state and local grants. This proposal would also begin the income subtraction for all tax years starting with 2022.

B&P notes that SB 25 (2023), which authorized a subtraction for federal grants, became effective August 18, 2023. The estimated impact for SB 25 included the assumption that all grants received during tax year 2023 would be exempted. Therefore, this proposal would only add grants received during 2022 to the exemption.

In the fiscal response for SB 25, B&P included information on federal grants received in Missouri during tax year 2022.

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

In addition, based on historic award data, B&P estimated that approximately 28.9% of awards go to corporations and 71.1% go to pass-through entities.

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

B&P notes that subtractions do not reduce revenues on a dollar-for-dollar basis, but rather in proportion to the top tax rate applied. For tax year 2022, the corporate tax rate was 4.0% and the pass-through business tax rate was 5.3%.

B&P notes that this proposal would not become effective until August 28, 2024 (i.e., FY25). B&P assumes that impacted businesses would have to amend their tax year 2022 tax returns to subtract any eligible broadband grant income. For the purpose of this fiscal note, B&P will assume that all eligible companies amend their tax year 2022 returns during FY25.

Based on the above information, B&P estimates that this proposal could reduce TSR and GR by **\$4,242,585** [(\$24,879,173 corporate grants x 4.0%) + (\$61,272,035 pass-through grants x 5.3%)] in FY25.

This proposal would also expand the subtraction to include any state and local grants. B&P is unaware of any state or local only grants that have been awarded since FY20 that are not simply passing on federal grant money. Therefore, this expansion could reduce TSR and GR by an unknown amount beginning in FY25.

Officials from the **Department of Revenue (DOR)** note in 2023, the General Assembly adopted SB 25, that allowed a subtraction from federal adjusted gross income of 100% of the amount of money received from a federal grant expanding broadband across the state. That proposal was effective August 28, 2023, and the fiscal note assumed that all grant money awarded in 2023 was allowed the subtraction. The first change in this proposal is to allow the subtraction to be retroactive to January 1, 2022.

This proposal would become effective on August 28, 2023, but makes this tax subtraction retroactively applicable to tax years beginning on or after January 1, 2022. This fiscal note will show the impact for tax year 2022 grants. DOR assume that the companies will all amend their returns beginning August 28, 2024, the effective date of this proposal, therefore, the fiscal impact will all occur in FY 2025.

In 2022, DOR notes that the corporate tax rate was 4% while the rate for the pass-through entities was 5.3%. In the fiscal note for SB 25, DOR provided the following information on the number of grants 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

DOR also noted that based on research of award amounts, 28.9% of the grant awards go to corporations and 71.1% go to the pass-through entities. DOR assumed the distribution of the grants 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, when these organizations file their amended return in FY 2025, it will result in an additional loss to the state of **\$4,242,585** [(\$24,879,173 corporate grants x 4.0%) + (\$61,272,035 pass-through grants x 5.3%)].

Additionally, this proposal expands the subtraction to state and local grants as well. DOR is unaware of any broadband grants that are distributed by the state or local governments. The only grants DOR knows of are distributed by the state on behalf of the federal government. DOR notes that should the state or a local political subdivision be handing out any grants for broadband purposes, those grants would be allowed the subtraction and the cost of this fiscal note will be higher than estimated.

This will require DOR to update the department's instructions for the MO-1040 and the MO-A forms and this is estimated to cost \$8,923.

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 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 officials from B&P and DOR both assume the proposal will have a direct fiscal impact on state revenues. Oversight does not have any information to the contrary. Therefore, Oversight will reflect DOR's and B&P's estimated impact in the fiscal note for FY 2025.

Oversight notes this proposal expands the subtraction to grants distributed by state and local governments. DOR and B&P both note the only grants currently distributed are distributed by the federal government. Should a local or state grant be distributed and a subsequent subtraction issued in the future, there would be a negative impact on general revenue. Oversight is unable to quantify future local grant disbursements. Therefore, Oversight will show a potential unknown negative fiscal impact beginning in FY 2026.

<u>FISCAL IMPACT – State Government</u>	FY 2025 (10 Mo.)	FY 2026	FY 2027
GENERAL REVENUE			
<u>Revenue Reduction - §143.121 - Broadband Grant Subtraction</u>	(\$4,242,585)	<u>\$0 or (Unknown)</u>	<u>\$0 or (Unknown)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>(\$4,242,585)</u>	<u>\$0 or (Unknown)</u>	<u>\$0 or (Unknown)</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

This provision would positively impact small businesses that qualify for the subtraction as described in the proposal.

FISCAL DESCRIPTION

Current law authorizes a taxpayer to claim an income tax deduction for 100% of federal grant moneys received for the purpose of providing or expanding access to broadband internet to areas of the state deemed to be lacking such access. This act modifies such deduction to also allow it to be taken for state and local grant moneys received.

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

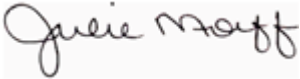
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Office of Administration - Budget and Planning



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