

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3446S.01I
 Bill No.: SB 1202
 Subject: Tax Credits
 Type: Original
 Date: February 1, 2024

Bill Summary: This proposal authorizes a tax credit for contributions to certain benevolent organizations.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
General Revenue Fund	Up to (\$8,923)	Up to (\$2,867,918)	Up to (\$2,834,412)
Total Estimated Net Effect on General Revenue	Up to (\$8,923)	Up to (\$2,867,918)	Up to (\$2,834,412)

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
General Revenue Fund - DOR	0	Up to 4 FTE	Up to 4 FTE
Total Estimated Net Effect on FTE	0	Up to 4 FTE	Up to 4 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 2025	FY 2026	FY 2027
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

135.440- Contributions to Certain Benevolent Organizations

Officials from the **Office of Administration – Budget & Planning** note:

The proposed legislation creates a new tax credit. For all tax years beginning on or after January 1, 2025, a taxpayer shall be allowed to claim a tax credit against the taxpayer's state tax liability in an amount equal to 50% of the taxpayer's contribution to a qualified organization that provides recovery support services and assistance to justice-involved individuals and people in recovery from substance use disorders. No more than \$2.5M can be authorized in any calendar year and no more than 20% of the total tax credits available shall be authorized to any particular qualified organization.

These credits are not refundable but may be carried forward to the next four succeeding tax years.

This credit is subject to appropriation. To the extent the general assembly makes appropriations for this credit, TSR may be reduced up to \$2.5M.

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

Subject to appropriation, starting January 1, 2025, this proposal would authorize a tax credit of 50% for contributions made to a 501(c)(3) tax-exempt organization(s) that provides recovery support services/assistance to justice-involved individuals and people recovering from substance use disorders, that meet the qualification requirements.

Each qualified organization shall provide information to the Department of Revenue relating to the identity of each taxpayer making a contribution to the qualified organization who is claiming a tax credit and the amount of such taxpayer's contribution. The qualified organization can decline a contribution from a taxpayer.

In any given tax year, no more than twenty percent of the total tax credits available under this section shall be authorized for contributions to any qualified organization. This credit has a cap of \$2,500,000 in total credits for the tax year. These will be authorized on a first-come, first-served basis.

This tax credit is to start on January 1, 2025; however, it will not result in a loss of revenue until FY 2026, when the first tax returns are filed claiming the credit.

Fiscal Year	Loss of Revenue
FY 2025	\$0
FY 2026	\$0 or (\$2,500,000)
FY 2027	\$0 or (\$2,500,000)

This credit shall not be refundable, assignable, transferrable, nor sellable; however, any tax credit that cannot be claimed for the tax year that the contribution was made, may be carried forward to the next four succeeding tax years until the full credit is claimed. Except for any excess credit carried forward, a taxpayer shall not be allowed to claim a tax credit under this section unless the total amount of the taxpayer's contribution(s) in the tax year to one or more qualified organizations has a value of at least two hundred fifty dollars.

This proposal requires that the receiving entity provide to DOR the names of the people making the donations and qualifying for the credit. Additionally, it requires DOR to make sure the annual cap is not exceeded and that no person receives more than the individual taxpayer cap. These are all duties of the administrator of the program, the Department of Mental Health.

Verification and certification processes are handled by other agencies and would be best done by the Department of Mental Health (DMH) who should qualify the organizations, gather the names and hand out only the number of certificates up to the annual cap on the program and enter the recipients of the credits into the State Tax Credit System (CMS). DMH would then provide a certificate to the recipient they can attach to the individual income tax return to claim the credit. DOR should only handle the redemptions.

Requiring DOR to do the verification and certification is outside their normal administrative scope. DOR assumes, in order to do this verification, the Department will need 1 Auditor (\$50,462) and 2 Associate Customer Service Representatives (\$35,880) to do the necessary verifications.

Officials from the DOR assume the need for 1 Auditor and 2 Associate Customer Service Representatives to provide proper consultation with DMH to establish various procedure for administering of this tax credit as specified in Section 135.440 5. to 9 of the proposal. Additionally, DOR indicates they will be performing most of the work. Therefore, Oversight will reflect up to 3 FTE's for DOR in the fiscal note effective FY 2026.

This credit is not refundable, and will automatically sunset on December 31, 2031.

This proposal creates a new tax credit that would require a new line being added to the Form MO-TC (\$7,138), updates to the DOR website and changes to the individual income tax computer system (\$1,785). These changes are estimated to cost \$8,923. DOR's existing tax credit staff is no longer able to take on any additional tax credits without additional resources. Due to the intensive knowledge of credits that is needed they are not able to use temporary staff to help with processing these returns. This proposal would require at least 1 FTE Associate Customer Service Rep at a salary of \$35,880.

Oversight notes Section 135.440 2 specify that subject to appropriation, for all tax years beginning on or after January 1, 2025, a taxpayer shall be allowed to claim a tax credit against the taxpayer's state tax liability in an amount equal to fifty percent of the taxpayer's contribution to a qualified organization.

Oversight notes Section 135.440 9 . specifies the director of revenue shall not authorize more than two million five hundred thousand dollars in tax credits under this section in any calendar year. Therefore, **Oversight** will reflect, for purpose of this fiscal note, up to the full impact of the allotted \$2.5 million, effective FY 2026.

Officials from the DOR assume the need for 1 FTE to process all necessary forms and returns associated with the tax credit. Therefore, **Oversight** will reflect the costs of 1 FTE Associate Customer Service Rep in the fiscal note effective FY 2026.

Lastly, DOR notes the costs for updates to the DOR website and changes to the individual income tax computer system. Therefore, Oversight will reflect the costs of updates in the fiscal note effective FY 2025.

The Oversight Division is responsible for providing a Sunset Report pursuant to Section 23.253 RSMo; however, they can absorb the cost with their current budget authority

Officials from the **Department of Mental Health (DMH)** 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 for DMH in the fiscal note.

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			
Costs – Section 135.440 50% Contribution to Benevolent Org.	\$0	Up to (\$2,500,000)	Up to (\$2,500,000)
<u>Costs</u> – Section 135.440 5. to 9.		Up to	Up to
Personnel Service	\$0	(\$182,988)	(\$186,648)
Fringe Benefits	\$0	(\$144,684)	(\$146,019)
Expense & Equipment	<u>\$0</u>	<u>(\$40,246)</u>	<u>(\$1,745)</u>
<u>Total Costs</u> – DOR FTE p.4	\$0	(\$367,918)	(\$334,412)
FTE Change	0 FTE	Up to 4 FTE	Up to 4 FTE
<u>Cost</u> – DOR ITSD Web and Form changes	<u>(\$8,923)</u>	<u>\$0</u>	<u>\$0</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>Up to (\$8,923)</u>	<u>Up to (\$2,867,918)</u>	<u>Up to (\$2,834,412)</u>
Estimated Net FTE Change on General Revenue	0 FTE	Up to 4 FTE	Up to 4 FTE

<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

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

FISCAL DESCRIPTION

For all tax years beginning on or after January 1, 2025, this act authorizes a tax credit in an amount equal to 50% of a taxpayer's contribution to a qualified organization. A qualified

organization is defined as a non-profit organization that provides recovery support services and assistance to justice-involved individuals, as such terms are defined in the act, and people in recovery from substance use disorders.

Contributions to qualified organizations shall not be used to purchase goods or services from or to produce a direct financial benefit for the contributor. Contributions shall be used to assist people in recovery from substance use disorders by providing such people with recovery support services including, but not limited to, supportive housing.

Tax credits authorized by the act shall not be refundable, but may be carried forward to the four subsequent tax years. Tax credits shall not be transferred, sold, or assigned.

The Director of the Department of Mental Health shall at least annually determine which organizations in the state are qualified organizations. Qualified organizations shall issue to a taxpayer a statement evidencing the receipt of a contribution, and shall be permitted to decline a contribution.

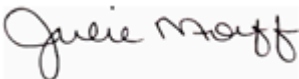
The total amount of tax credits that may be authorized in a calendar year shall not exceed \$2.5 million, and no more than 20% of the total tax credits authorized shall be authorized for contributions to any given qualified organization.

This act shall sunset on 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
Joint Committee on Administrative Rules
Office of the Secretary of State
Office of Administration – Budget & Planning
Department of Mental Health



Julie Morff
Director
February 1, 2024



Ross Strope
Assistant Director
February 1, 2024