COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4006S.01I
Bill No.: SB 1060
Subject: Tax Credits; Economic Development
Type: Original
Date: April 26, 2024

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

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
General Revenue*	Could Exceed ($200,798,937)	Could Exceed ($200,785,043)	Could Exceed ($201,940,340)
Total Estimated Net Effect on General Revenue	**Could Exceed ($200,798,937)**	**Could Exceed ($200,785,043)**	**Could Exceed ($201,940,340)**

*Oversight reflects potential tax credit redemption that could exceed $460,012 for Champion for Children Tax Credits in FY 25 & FY 26 and full amount $1,610,043 in FY 2027 due to the renewal of the program as of January 1, 2026; up to $200 million for Advanced Recruiting Manufacturing Act; (3) DOR FTE and (1) DED FTE.

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
General Revenue - DOR	3 FTE	3 FTE	3 FTE
General Revenue - DED	1 FTE	1 FTE	1 FTE
Total Estimated Net Effect on FTE	**4 FTE**	**4 FTE**	**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

Section 135.341 Champion for Children Tax Credit Program

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.

Tax credit is able to be carried over to any subsequent 5 tax year. 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 they are showing the amount of credits redeemed annually over the last several years.

For informational purposes only, DOR is providing the history of the redemptions of each of these credits.

Year	Issued	Total Redeemed
FY 2023	$1,225,848.00	$1,225,848.00
FY 2022	$884,965.00	$884,965.00
FY 2021	$1,339,280.00	$1,339,280.00
FY 2020	$827,942.00	$827,942.00
FY 2019	$999,995.00	$999,995.00
FY 2018	$999,986.00	$999,986.00
FY 2017	$999,873.00	$999,873.00
FY 2016	$999,987.00	$999,987.00
FY 2015	$999,990.00	$999,990.00
FY 2014	$930,769.00	$930,769.00
FY 2013	$792,368.00	$792,368.00
FY 2012	$629,456.00	$629,456.00
TOTALS	$11,630,459.00	$11,630,459.00

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 their website and make changes to the individual income tax computer system ($1,785). These changes are estimated to cost $8,923.

Officials from the **Office of Administration – Budget & Planning (B&P)** assumes §135.341.2 would increase the value of the Champion for Children tax credit to 70% of each contribution beginning with tax year 2024. B&P notes that the three-year average redemption amount was $1,150,031 from FY21-FY23. Had the tax credits been set at 70% of donations, redemptions would have been $1,610,043; for an increase of $460,012 in redemptions. This provision will begin impacting GR in FY25 when annual income tax returns are filed.

B&P notes that this proposal would increase the credit value for tax years beginning 2024. However, this proposal would not be effective until August 28, 2024 – after many individuals have already made their donation and received a certificate with a credit value set at 50%. It is unclear if each impacted individual would need to request a new certificate from the agency where the donation was made.

Section 135.341.3 would remove the annual redemption limit of $1.5 million beginning with FY25. Therefore, B&P estimates that this proposal may reduce TSR and GR by an amount that could exceed $460,012 annually beginning FY25.

Section 135.341.9 extends the program sunset to 2030. **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.

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.

Oversight notes the last three-year (2021-2023) 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 shown above, the taxpayers will be able to receive $1,610,043 [($1,150,031/.5) x.70].

Oversight notes that for all fiscal years beginning on or after July 1, 2024, there shall be no limit imposed on the cumulative amount of tax credits. Therefore, Oversight will reflect redemption could exceed $460,012 ($1,610,043 - $1,150,031), representing the difference between current and future claims of 70% contributions, effective FY 2025.

Additionally, Oversight will show the full impact as of FY 2027 ($1,610,043) due to the renewing of program as of January 1, 2026. (Previously was going to sunset December 31, 2025)

Lastly, **Oversigh**t will reflect the DOR's computer, database, and form updates totaling $8,923.

<u>Section 620.040 – MO Advanced Manufacturing Recruitment Act</u>

Officials from the **Department of Economic Development (DED)** assume 620.040 establishes the Missouri Advanced Manufacturing Recruitment Act.

For tax years beginning January 1, 2025, qualifying manufacturing companies may (for a period of 5 years) be allowed a tax credit of 25% of qualifying manufacturing capital investments.

Cap: $200M per CY.

Companies must apply for consideration to DED with an application and documentation. The manufacturing capital investment plan must total no less than $1B. The companies must also hire at least 500 jobs.

The credits provided may be transferred or sold.

DED shall present a quarterly report to the general assembly detailing the program.

This fiscal note recommends 1.0 FTE to manage the program.

Oversight notes the DED is required to promulgate rules, to provide a report quarterly, after January 1, 2026 and thereafter.

Oversight notes officials from the DED assume the need for (1) FTE to administer the program. Oversight does not have any information to the contrary. Therefore, Oversight will reflect the cost for (1) FTE (Senior Economic Develop. Specialist at $74,664 annually) in the fiscal note, effective FY 2025.

Officials from the **Office of Administration – Budget & Planning (B&P)** assume the §§ 620.040 creates the "Missouri Advanced Manufacturing Act" and the Missouri advanced manufacturing program. This program has an annual issuance cap of $200M. Beginning on or after January 1, 2025, the Department of Economic Development (DED) can award to qualified manufacturing company a tax credit that equals up to twenty percent of manufacturing capital investment in four equal installments for up to five years. Eligible companies must submit an application outlining a capital investment of at least $1B. In order to receive benefits, the company must enter into an agreement with DED detailed performance requirements, repayment penalties for non-performance, and clawback provisions. Before January 1, 2026, DED must submit a quarterly report detailing benefits issued to the general assembly.

B&P notes that this proposal places the $200M cap on tax credits issued per year, not tax credits authorized per year. B&P further notes that while DED can only issue 25% of credits to a specific company, they could issue a total of $200M per year over all participating businesses. Therefore, the $200M issuance cap would be equivalent to an $800M authorization cap. In addition, if DED issues the full $200M of credits in the first year, no new businesses would be able to participate in this program until all existing business finish at year five.

B&P also notes that this tax credit is refundable, and the language does not prohibit companies from retaining withholdings. Therefore, B&P notes that business may not wait until their tax year 2025 return is filed in 2026 to begin claiming tax credits. Therefore, this proposal could reduce TSR and GR by up to $200M beginning in FY25.

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

This proposal attempts to create a new tax credit program for qualified manufacturing companies. To be eligible the manufacturing company must make a $1 billion manufacturing capital investment and create at least 500 new jobs. The Department of Economic Development (DED) would be required to verify the $1 billion expenditure and verify the jobs. It should be noted that this does not require the jobs to be full-time; therefore, they could be part time or temporary.

For all tax years beginning on or after January 1, 2025, this proposal says that a qualified manufacturing company can receive a tax credit for up to 20% of their qualified investment. Therefore, a qualified company could receive at least $200M in credits for every $1 billion spent. This proposal states the credits are to be awarded in four equal allotments as they reach the designated percentage of investment made goals. They get the credits after 25% of the investment is made, 50% of the investment is made, 75% of the investment is made and when 100% of the investment is made. While DOR believe that most companies will make this investment over a period of four years, this proposal does not prohibit a company from making 50% of the investment in year 1 and getting the first 2 tax credit amounts in that year.

For fiscal note purposes, DOR will assume that each company will make the full investment of capital over four years and will receive the maximum allowed $50 million in credits each year. Therefore, should there be more than (4) companies qualifying for this credit, one company could not participate until year 5.

This proposal states that DED is allowed to issue no more than $200M in credits per fiscal year.

Fiscal Year	Credits Issued
Year 1	(Up to $200,000,000)
Year 2	(Up to $200,000,000)
Year 3	(Up to $200,000,000)
Year 4	(Up to $200,000,000)
Year 5	(Up to $200,000,000)

This proposal also states the tax credits are to be applied against taxes in Chapter 143 and Chapter 148; however, it does not exclude applying the credits to withholding taxes. These chapters contain the individual income tax and financial institutions taxes. Not excluding the credits from withholding tax would allow a company to use the credits to stop remitting withholding tax. Withholding tax is an employee's tax and is credited to their account, not a company's. The company is the remitter of the tax on behalf of their employees.

DOR would have to manually track the tax credits that are applied against withholding tax to ensure credit is made to the employee's account. With a minimum of $50 million in credits per one company with at least 500 employees they would need additional FTE to handle this tracking. DOR may need at least two (2) FTE Associate Customer Service Reps at a salary of $35,880 each to handle this tracking.

This proposal creates a new tax credit that would require a new line being added to the Form MO-TC ($7,138), updates to their website and changes to the individual income tax computer system ($1,785) and FIT database ($1,785). These changes are estimated to cost $10,708.

DOR's existing tax credit redemption 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 to handle the redemptions.

Oversight notes §620.040 12. requires DOR to verify delinquency (with additional stage agencies) of taxes paid by the prospective taxpayer and if any such a delinquency exist use the tax credit to reconcile the money owed. After the applicable delinquency is paid, the DOR should pay the remaining of the tax credit to otherwise qualified taxpayer.

Oversight notes officials from the DOR assume the proposal will have direct administrative impact on their organization. Oversight does not have any information to the contrary. Therefore, Oversight will reflect a cost for (2) FTE - Associate Customer Service Representative at $35,880 for tracking and (1) FTE – Associate Customer Service Representative at $35,880 to process tax credits.

Oversight notes that the proposal, Section 620.040. 3. denotes that a company is allowed a tax credit of up to 20% of a qualified manufacturing capital investment if the qualified manufacturing company:

a) Makes at least 1 billion of a qualified manufacturing capital investment
b) Creates at least 500 jobs

Oversight notes the qualified company has three years after the tax credit approval to meet the 25% threshold. After the 25% threshold is met, the company has 5 years to receive the full tax credit maximum. If the company makes the qualified investment the first year the company is automatically allowed to start receiving the tax credits, but the maximum amount of tax credit that taxpayer can receive is still the 20% of the total investment. (Investor with $1 billion is allowed to receive $200 million in tax credits in 25% increments over 5 year period)

Oversight notes recent article from Business Expansion Journal notes: Three global manufacturing companies are currently investing more than $1 billion in new facilities or expansions in different parts of the St. Louis region, and another $1.2 billion investment is planned on the downtown St. Louis Riverfront.

Oversight is not sure how many companies will be eligible in FY 2025 and thereafter, but for purpose of this fiscal note, Oversight will assume the maximum amount of tax credit ($200 million) may be awarded beginning in FY 2025 and annually thereafter.

Overall Bill:

Officials from the **Oversight Division** state they are responsible for providing a Sunset Report pursuant to Section 23.253 RSMo; however, the Oversight Division can absorb the cost with the current budget authority.

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

A potential unknown decrease of premium tax revenues (up to the tax credit limit established in the bill) in FY2026 and FY2027 as a result of the creation of the Missouri Advanced Manufacturing Recruitment 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.

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, 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.

FISCAL IMPACT – State Government	FY 2025 (10 Mo.)	FY 2026	FY 2027
GENERAL REVENUE			
Costs – §135.341 – CASA Tax Credits - the difference between 50% to 70% contributions (based on a 3-year historical average of redemptions) with cap removal p.4 and extension of the credit (was to expire in 2025, now 2030)	Could Exceed ($460,012)	Could Exceed ($460,012)	Could Exceed ($1,610,043)
Costs – DED – Section(s) 620.040			
Personnel Service	($62,220)	($76,157)	($77,680)
Fringe Benefits	($36,632)	($44,538)	($45,128)
Expense & Equipment	($19,121)	($6,022)	($6,143)
Total Costs – DED	($117,973)	($126,717)	($128,951)
FTE Change	1 FTE	1 FTE	1 FTE
Cost – Section 620.040 Missouri Advanced Manufacturing Act - annual cap of $200 million p.5	Up to ($200,000,000)	Up to ($200,000,000)	Up to ($200,000,000)
Revenue Gain – Section 620.040 7. (2) Claw back provision p.5-6	Unknown	Unknown	Unknown
Costs – Section 620.040			
Personnel Service	($89,700)	($109,793)	($111,989)
Fringe Benefits	($71,688)	($86,810)	($87,612)
Expense & Equipment	($39,933)	($1,711)	($1,745)
Total Costs – DOR p.4	($201,321)	($198,314)	($201,346)
FTE Change	2 FTE	2 FTE	2 FTE
Costs – Section 620.040 DOR TC form, database, and website changes	($19,631)	$0	$0
ESTIMATED NET EFFECT ON GENERAL REVENUE	**Could Exceed ($200,798,937)**	**Could Exceed ($200,785,043)**	**Could Exceed ($201,940,340)**
Estimated Net FTE Change on General Revenue	3 FTE	3 FTE	3 FTE

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

CHAMPION FOR CHILDREN TAX CREDIT

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. (Section 135.341)

This provision is identical to SB 662 (2023) and HB 1343 (2023).

ADVANCED MANUFACTURING RECRUITMENT ACT

This act establishes the "Missouri Advanced Manufacturing Recruitment Act".

For all tax years beginning on or after January 1, 2025, this act authorizes a tax credit for qualified manufacturing capital investments made in this state by qualified manufacturing companies, as defined in the act. The tax credit shall not exceed twenty percent of such investment, and shall not exceed the least amount necessary to obtain the qualified manufacturing company's commitment to initiate the project. A qualified manufacturing capital investment is defined as an expenditure on property that is depreciable pursuant to federal law. To be eligible for the tax credit, a qualified manufacturing company shall make a qualified manufacturing capital investment of at least $1 billion and create at least 500 new jobs.

Tax credits authorized pursuant to this act shall be refundable and may be transferred, sold, or assigned. The total amount of tax credits authorized pursuant to this act in any given calendar year shall not exceed $200 million.

Qualified manufacturing companies that are awarded tax credits pursuant to the act shall receive such tax credits in four separate equal installments, with each installment awarded for each quarter of the total qualified manufacturing capital investment made.

Qualified manufacturing companies shall apply to the Department of Economic Development to receive tax credits. Upon approval of a notice of intent, the qualified manufacturing company and the Department shall enter into an agreement specifying the number of new jobs, payroll, and new qualified manufacturing capital investment for each year during the project period; clawback provisions, as described in the act; and any other provisions required by the Department.

In evaluating an application for tax credits, the Department shall consider the significance of the qualified manufacturing company's need for tax credits; the amount of projected economic impact to the state; the size and quality of the proposed project; the financial stability and creditworthiness of the qualified manufacturing company; the level of economic distress in the area; and the competitiveness of alternative locations for the project.

Upon entering into an agreement with the Department, a qualified manufacturing company shall have three years to make twenty-five percent of the qualified manufacturing capital investment. If such investment is not made, the agreement shall be void.

The Department shall verify with applicable state agencies that a qualified manufacturing company does not owe any delinquent income, sales, or use tax or interest or penalties on such taxes, or any delinquent fees or assessments levied by any other state agency. Tax credits issued to a qualified manufacturing company shall offset any such delinquencies and penalties, as described in the act.

The Department shall submit quarterly reports to the General Assembly detailing tax credits approved pursuant to the act.

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 Economic Development
Department of Social Services
Office of the Secretary of State
Joint Committee on Administrative Rules
Oversight Division

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