COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1420S.01I
Bill No.: SB 190
Subject: Tax Credits; Taxation and Revenue - Income; Economic Development; Education, Higher
Type: Original
Date: February 17, 2025

Bill Summary: This proposal establishes tax credits for certain engineering degrees.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2026	FY 2027	FY 2028	Fully Implemented (FY 2030)
General Revenue Fund*	$0	Could Substantially Exceed ($11,252,710)	Could Substantially Exceed ($21,891,565)	Could Substantially Exceed ($43,304,394)
Total Estimated Net Effect on General Revenue	**$0**	**Could Substantially Exceed ($11,252,710)**	**Could Substantially Exceed ($21,891,565)**	**Could Substantially Exceed ($43,304,394)**

*Oversight notes there is no maximum cap for the overall program under Section 135.005. Oversight cannot estimate the level of participation in this tax credit but provided a cost based on 25% of new hires receiving a tax credit each year for five years, as well as their employers. Other costs include 2 DED FTE (Senior Economic Specialists at $83,784) and 3 DOR FTE (Associate Customer Service Representatives at $37,020).

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2026	FY 2027	FY 2028	Fully Implemented (FY 2030)
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**	**$0**

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2026	FY 2027	FY 2028	Fully Implemented (FY 2030)
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)				
FUND AFFECTED	FY 2026	FY 2027	FY 2028	Fully Implemented (FY 2030)
General Revenue Fund - DOR	0 FTE	3 FTE	3 FTE	3 FTE
General Revenue Fund – DED	0 FTE	2 FTE	2 FTE	2 FTE
Total Estimated Net Effect on FTE	**0 FTE**	**5 FTE**	**5 FTE**	**5 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 2026	FY 2027	FY 2028	Fully Implemented (FY 2030)
Local Government	**$0**	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Section 135.005 Tax Credits for Certain Engineering Degrees

Credit #1- Section 135.005 2. - Reimbursement at 50% tuition paid for the employees

Officials from the **Department of Revenue (DOR)** notes this Section allows a qualified employer to receive credit for the tuition they reimbursed to a qualified employee. To be a qualified employer a company must be registered in this state and whose principal business activity involves engineering. DOR notes that there are over 20 engineering firms in MO. The smallest firms have about 10 engineers on staff. While the 2 largest firms Burns and McDonnell who has 1,000 license engineers and Jacobs with 9,000 licensed engineers on staff. Both of these firms are located in the Kansas City area. DOR is unable to determine how many of these firms would participate in this tax credit program or how many recent engineering graduates they hire. DOR notes that this does not require the engineering firm to be a Missouri business, just be a business registered to do business here in MO. Therefore, this could impact additional firms outside the state.

DOR notes this proposal states that a qualified employee must be hired full-time after January 1, 2026, and have graduated with an undergraduate or graduate degree. This tax credit program would allow a qualified employer to receive a tax credit equal to 50% of the tuition they reimburse for a qualified employee. Tuition only includes the cost for course instruction and participation and does not like room & board or books and fees. The credit is allowed as long as the employee remains employed at least four years.

DOR notes this tax credit does not have an annual cap but does not allow the credit to be issued for more than 50% of an employee's previous tuition amount paid. The average tuition at the University of Missouri for engineering students is $10,899 annually for 15 hours. Therefore, this credit could not exceed $5,450 per employee per year. DOR is unable to determine how many of the graduating students are employed annually by these companies and how many companies would wish to pay their tuition. DOR notes that if just 46 employers pay the $5,450 tuition, then this would cost $250,000. DOR assumes this could be higher than $250,000 especially since it is not limited to only Missouri companies.

This proposal creates a new tax credit that would require a new line being added to the Form MO-TC ($2,200), updates to DOR website and changes to the Department's individual income tax computer system ($1,832). These changes are estimated to cost $4,032. 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 DOR is 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 $37,020.

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 the ITSD costs for 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 that DED, in response to the similar/identical proposal SB 849 (2024), noted that a rough estimate is approximately 2,250 engineers each year being eligible for the tax credit. The DED pulled the number of private sector engineers hired in 2022 for Missouri under the age of 35, trying to capture first time hires that could be eligible for this tax credit. There were over 5,700 engineering degrees awarded in 2022 in the state of Missouri, helping provide a backup to their estimates.

Oversight notes that currently Indeed.com has a 2,633 engineer vacancies open in Missouri; therefore, Oversight will take DED's estimated totals above as basis for further fiscal analysis below.

Oversight notes that according to the Missouri University of Science and Technology the tuition for in-state students, 2024-2025 school year, was $15,196 annually and $33,466 for out of state students.

Oversight notes that the 50% of tuition reimbursement would allow the employer to receive $7,598 from the tuition paid for Missouri Engineer students at the University of Science and Technology as shown above.

Oversight, for purpose of this fiscal note, will show a range between 25% (or 563 students) to 50% (1,125 students) of the graduating class, out of 2,250 (DED's estimate) applied and was able to obtain job in an engineering field with qualified employer.

Oversight uses DEDs 2,250 newly hired engineers for which employers could reimburse tuition and qualify for a tax credit. Oversight estimates the cost based on difference in levels of participation for the employer tax credit in table below to show estimated impact as follow:

Engineer Employee/ Tuition - 50%	**$7,598 in-state 50%**
25% - 563 students/employees	$4,277,674
50% - 1125 students/employees	$8,555,348

Credit #2 - Section 135.005 3. Employers

DOR notes this Section allows the same qualified employers to receive a tax credit for the compensation they pay to a qualified employee for the first five years they are employed. The credit is to be equal to 10% of compensation paid for the employee.

The credit per employee cannot exceed $15,000 per year and cannot exceed $75,000 per employee through the maximum 5 years. DOR notes that the University of Missouri-Columbia did a survey of their 2023 graduating engineers and found they had a median starting salary of $73,000 depending on type of engineering.

DOR is unable to determine how many of the engineering firms will hire and seek a credit for the employees they are hiring. DOR notes that if 17 employees' compensation is requested as a tax credit this would cost $250,000. DOR assumes this could be higher than $250,000.

This proposal creates a new tax credit that would require a new line being added to the Form MO-TC ($2,200), updates to DOR website and changes to the Departments' individual income tax computer system ($1,832). These changes are estimated to cost $4,032. 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 DOR is 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 $37,020.

Oversight notes officials from the DOR assume the proposal will have a direct fiscal impact on their organization. Oversight does not have any information to the contrary. Therefore, Oversight will reflect a 1 FTE (Associate Customer Service Representative) impact for Section 135.005.2, at $37,020 annually, beginning FY 2026, in the fiscal note.

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 the ITSD costs for 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 the credit is to be equal to 10% in compensation paid for employees who graduated from an approved school.

Oversight notes that according to the Bureau of Labor and Statistics, occupational employment and wage estimates, there are currently 38,310 full time engineers in Missouri working in various fields with an annual mean salary of $89,060. Therefore, Oversight estimates the employer could receive $8,906 ($89,060 x 10%), but no more than $15,000 per employee per each graduate.

Oversight shows the impact stemming from this Section below:

Engineer - Employee/ Compensation	**$8,906 Salary for a graduate at 10%**
25% - 563 students/employees	$5,014,078
50% - 1125 students/employees	$10,028,156

Credit #3 – Section 135.005 4. Employee tax credit

DOR notes this Section allows the employee who must be hired after January 1, 2026, to receive a $2,500 tax credit annually for five years if they are employed by one of the qualified employers. The tax credit may be claimed each year the taxpayer achieves the status of a qualified worker for five consecutive tax years beginning with the tax year in which the taxpayer becomes a qualified worker. No taxpayer shall claim tax credits that exceed a total of $12,500. DOR assume that each student hired from a qualified institution with an allowed engineering degree will claim this credit.

DOR is unable to determine how many students would graduate annually and go to work for an approved company. DOR note that the University of Missouri-Columbia posted they graduated 630 engineering students in 2024. DOR note that not all of them are in a required ABET accredited program and that additional students graduate from the other ABET accredited programs in the State. DOR notes that if all of these students would qualify it would cost $1,575,000 in the first year, $3,150,000 in the second year, $4,725,000 in the third, $6,300,000 in the fourth year and $7,875,000 in the fifth year. This amount would be the expected loss for each year thereafter.

DOR notes that this proposal creates a new tax credit that would require a new line being added to the Form MO-TC ($2,200), updates to the DOR's website and changes to the Department's individual income tax computer system ($1,832). These changes are estimated to cost $4,032. 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 DOR is 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 $37,020.

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 the ITSD costs for 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 this credit allows for the employee to receive up to $2,500 tax credit annually for five years if they are employed by one of the qualified employers.

Oversight estimates the impact using the same level of participating students/employees above and shows the impact stemming from this section below:

Engineer - Employee/ Compensation	$2,500
25% - 563 students/employees	$1,407,500
50% - 1,125 students/employees	$2,812,500

Oversight is uncertain if an employer could receive both reimbursed tuition tax credit and the employee compensation tax credit. For purposes of the fiscal note, Oversight assumes an employer could receive both tax credits. If the assumption is incorrect, this would change the impact presented in the fiscal note.

Oversight summarizes the potential impact, assuming 25% (563) of newly hired engineers who would receive a tax credit, as would their employers. This assumption is based on those new hires having graduated from an in-state institution.

Section 135.005 2. Employer Tuition Reimbursement Tax Credit – 50% of in-state tuition ($7,598) – 25% of new hires (563)	$4,277,674
Section 135.005 3. Employer Compensation Paid Tax Credit – 10% of salary ($8,906) – 25% of new hires (563)	$5,014,078
Section 135.005 .4 Employee Tax Credit - $2,500 per year – 25% of new hires (563)	$1,407,500
Total	**$10,699,252**

<u>Summary for Section 135.005</u>

Oversight notes that this program does not have a maximum cap for the overall program, instead limits each tax credit per individual employer or employee for a given amount of years. The tuition reimbursement tax credit has a four-year award schedule while the other two tax credits have a 5 year award schedule. Oversight will show cumulative effect of the tax credits stemming from employers or employees claiming a tax credit each year while next graduates entering the workforce add to the claims in the second year and so on.

Estimated cumulative cost at 25% of new hires qualifying for tax credit each year:

	Year 1	Year 2	Year 3	Year 4	Year 5
Group 1	$10,696,252	$10,696,252	$10,696,252	$10,696,252	$6,421,578*
Group 2		$10,696,252	$10,696,252	$10,696,252	$10,696,252
Group 3			$10,696,252	$10,696,252	$10,696,252
Group 4				$10,696,252	$10,696,252
Group 5					$10,696,252
Total	**$10,696,252**	**$21,392,504**	**$32,088,756**	**$42,785,008**	**$49,206,586**

*The tuition reimbursement tax credit is awarded for four years and does not occur for this group in the fifth year.

<u>Section 135.800 Tax Credit Accountability Act</u>

Officials from the **Department of Revenue (DOR) assume** adding these tax credits to the Tax Credit Accountability Act of 2004 would not fiscally impact DOR.

Officials from the **Office of Administration – Budget & Planning** assume Section 135.800 is modified to include rape and crisis centers under Domestic and social tax credits, associations of life and health insurance and property and casualty guaranties under Financial and insurance tax credits, and engineering workforce development under Training and educational tax credits. These modified provisions may have an unknown fiscal impact on TSR.

Officials from the **Department of Economic Development** assume Section 135.800 is the "Tax Credit Accountability Act of 2004".

Oversight notes the changes within Section 135.800 will not have a fiscal impact on any above agencies, instead make sure the above tax credit is properly reference within the RSMo. Therefore, Oversight will reflect zero impact stemming from these changes in the fiscal note.

Overall bill:

Officials from the **Department of Revenue (DOR)** note this proposal appears to create three new tax credit programs administered by the Department of Economic Development. These credits involve ABET certified engineering programs in the state of Missouri. DOR notes that while 13 different Colleges and Universities offer engineering courses, it appears that only the University of Missouri-Columbia, University of Missouri – Kansas City and the Missouri University of Science & Technology have some engineering programs that are ABET accredited. These credits are all to start for all tax years beginning on or after January 1, 2026. Therefore, the first time they will be claimed on a tax return is FY 2027.

DOR notes that none of the credits created in this proposal allow for the credit to be refunded. Nor are they allowed to be transferred, sold or assigned. Additionally, none of these credits have an annual cap. These credits do have a sunset date of December 31, 2031.

Officials from the **Department of Economic Development (DED)** note the three tax credit programs in this bill could have a significant fiscal impact if not amended to include an annual cap.

Section 135.005. This bill introduces tax credits of 50% of the tuition reimbursement paid for qualified employers for newly employed workers holding engineering degrees or certificates from accredited programs that may be claimed each year the qualified worker remains employed or under contract up to four years. This tax credit may not exceed 50% the average annual amount paid by a qualified worker for enrollment in a qualified program. If a qualified employer has other tax credits, those tax credits must be claimed first.

The average annual public tuition for engineering programs in Missouri for in-state students is $9,502. Not considering private education or out-of-state tuition, and assuming all public education in-state graduates begin working within one year in Missouri for a Qualified Employer, and have qualified tuition reimbursement, and assuming the employer reimburses tuition, the average amount of tax credits that would be issued each year for the first year could be $0-$14,398,944 and increase each year for the first five years.

Additionally, it offers tax credits to qualified employers based on 10% of the compensation paid to these qualified workers during their first through fifth consecutive years of employment or contract. The tax credits shall not exceed $15,000 for any single qualified worker in any given tax year and shall not exceed a total of $75,000 for any single qualified worker. If a qualified employer has other tax credits, those tax credits must be claimed first.

There are approximately 3,061 individuals who graduate with an engineering degree in Missouri each year. Engineering occupations have a 24% turnover rate. The median wage of an Engineer is $93,301. Assuming all 3,061 individuals get a job in Missouri with a Qualified Employer, are paid the median salary, and 76% of them continue to be employed by the same employer, the average amount of tax credits that would be issued in the first year could be $0-$28,559,436 and increase each year for the first five years.

The legislation also provides tax credits equal to $2,500 directly to qualified workers who have recently obtained engineering degrees or certificates that are employed in relevant fields each year they achieve the status of a qualified worker for five consecutive tax years, not to exceed a total of $12,500. The tax credits may be carried forward 4 years beyond the year in which the taxpayer initially claimed the tax credit.

There are 3,061 graduates each year. Assuming they are all Qualified Workers and 76% of them continue to work for their employer consecutively, the average amount of tax credits that would be issued in the first year could be $0-$7,652,500 and increase each year for the first five years.

The implementation of HB 204 would result in a significant reduction of TSR due to the issuance of tax credits. The exact cost to the state depends on the number of qualified employers and workers participating in the program and the total amount of tax credits claimed.

DED estimates the need of 2 FTE to implement this program.

Oversight does not have any information to the contrary. Therefore, **Oversight** will reflect the DED 2 FTE (Senior Economic Specialists $83,784 each) impact, in the fiscal note.

Officials from the **Office of Administration – Budget & Planning (B&P)** assume Section 135.005 authorizes three training and educational tax credits to qualified employers and qualified workers beginning on or after January 1, 2026. A qualified employer is a business entity registered to do business in this state and whose principal business activity involves the engineering sector. Qualified workers are defined as a person newly-employed on a full-time basis with a qualified employer on or after January 1, 2025, and who has been awarded an engineering degree or certificate from a qualified program and institution.

The first tax credit is for a qualified employer who reimburses tuition to a qualified employee who received his or her degree or certificate within one year prior to or following employment with the employer. The tax credit shall be equal to 50% of the amount of tuition reimbursed and claimed for the first four years of employment. Such tax credits shall not be transferred, sold, or assigned, and shall not be refundable or carried forward to any other tax year.

The second tax credit is for a qualified employer who pays compensation to a qualified employee for the first five years of such employment. The tax credit shall be equal to 10% of the compensation paid. Tax credits shall not exceed $15,000 for a qualified employee in a tax year, and a total of $75,000 for any given qualified employee. Employer tax credits shall not be transferred, sold, or assigned, and shall not be refundable or carried forward to any other tax year.

A third tax credit is allowed to a taxpayer who becomes a qualified employee in an amount equal to $2,500 that may be claimed for five consecutive tax years beginning with the tax year they qualified and a maximum of $12,500 in tax credits. Employee tax credits shall not be transferred, sold, or assigned, and shall not be refundable, but may be carried forward to subsequent tax years not exceeding the fourth tax year succeeding the tax year they initially claimed the tax credit.

This act shall sunset on December 31, 2031, unless reauthorized by the General Assembly.

Section 135.800 is modified to include rape and crisis centers under Domestic and social tax credits, associations of life and health insurance and property and casualty guaranties under Financial and insurance tax credits, and engineering workforce development under Training and educational tax credits. These modified provisions may have an unknown fiscal impact on TSR.

This tax credit has a cap on employees and employers, but not the overall program. B&P notes this will have an unknown impact on TSR but could exceed $1M annually.

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

<u>Rule Promulgation</u>

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 2026 (10 Mo.)	FY 2027	FY 2028	Fully Implemented (FY 2030)
GENERAL REVENUE				
Costs – Section(s) 135.005 2,3,4, - FTEs needed p.4-6				
Personnel Service	$0	($113,281)	($115,547)	($118,844)
Fringe Benefits	$0	($92,779)	($93,687)	($92,975)
Expense & Equipment	$0	($39,933)	($1,745)	($1,852)
Total Costs - DOR	$0	($245,993)	($210,979)	($213,671)
FTE Change	0 FTE	3 FTE	3 FTE	3 FTE
Cost - Section 135.005 2,3,4. – Employer Tuition Tax Credit, compensation, and employee reimbursement p.7-9	$0	Could Substantially Exceed ($10,696,252)	Could Substantially Exceed ($21,392,504)	Could Substantially Exceed ($42,785,008)
Costs – Section(s) 135.005 2,3,4 - 2 FTEs needed p. 7				
Personnel Service	$0	($170,919)	($174,338)	($185,009)
Fringe Benefits		($100,088)	($101,459)	($107,669)
Expense & Equipment	$0	($39,458)	($12,285)	($13,037)
Total Costs - DED	$0	($310,465)	($288,082)	($305,715)
FTE Change	0 FTE	2 FTE	2 FTE	2 FTE
ESTIMATED NET EFFECT ON GENERAL REVENUE	**$0**	**Could Substantially Exceed ($11,252,710)**	**Could Substantially Exceed ($21,891,565)**	**Could Substantially Exceed ($43,304,394)**
Estimated Net FTE Change on General Revenue	0 FTE	5 FTE	5 FTE	5 FTE

FISCAL IMPACT – Local Government	FY 2026 (10 Mo.)	FY 2027	FY 2028	Fully Implemented (FY 2030)
	$0	**$0**	**$0**	**$0**

FISCAL IMPACT – Small Business

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

FISCAL DESCRIPTION

For all tax years beginning on or after January 1, 2026, this act authorizes three tax credits to qualified employers and qualified workers. Qualified employers are defined as a business entity registered to do business in this state and whose principal business activity involves the engineering sector. Qualified workers are defined as a person newly-employed on a full-time basis with a qualified employer on or after January 1, 2026, and who has been awarded an engineering degree or certificate from a qualified program from a qualified institution, as such terms are defined in the act.

A qualified employer shall be allowed a tax credit for tuition reimbursed to a qualified worker who has received his or her degree or certificate within one year prior to or following the commencement of employment with the qualified employer. The tax credit shall be equal to 50% of the amount of tuition reimbursed and may be claimed for the first four years of the qualified worker's employment or contract. Such tax credits shall not be transferred, sold, or assigned, and shall not be refundable or carried forward to any other tax year.

A qualified employer shall also be allowed a tax credit for compensation paid to a qualified worker for the first five years of such worker's employment. The tax credit shall be equal to 10% of compensation paid to a qualified worker. Such tax credits shall not exceed $15,000 for a qualified worker in a tax year, and shall not exceed a total of $75,000 for any given qualified worker. Such tax credits shall not be transferred, sold, or assigned, and shall not be refundable or carried forward to any other tax year.

A taxpayer who becomes a qualified worker shall be allowed a tax credit in an amount equal to $2,500. The tax credit may be claimed for five consecutive tax years beginning with the tax year in which the taxpayer becomes a qualified worker. No taxpayer shall claim a total of more than $12,500 in tax credits. Such tax credits shall not be transferred, sold, or assigned, and shall not be refundable, but may be carried forward to subsequent tax years, provided that a tax credit shall not be carried forward beyond the fourth tax year succeeding the tax year in which the taxpayer initially claimed the tax credit.

This act shall sunset on December 31, 2031, 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 Administration – Budget & Planning
Department of Economic Development
Joint Committee on Administrative Rules
Office of the Secretary of State
Oversight Division

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February 17, 2025

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February 17, 2025

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