

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 5856S.01I  
 Bill No.: SB 1406  
 Subject: Economic Development; Department of Economic Development; Tax Credits  
 Type: Original  
 Date: February 22, 2026

Bill Summary: This proposal establishes the Missouri Defense and Energy Independence Act.

**FISCAL SUMMARY**

**ESTIMATED NET EFFECT ON GENERAL REVENUE FUND**

FUND AFFECTED	FY 2027	FY 2028	FY 2029	Fully Implemented (FY 2031)
General Revenue*	Up to (\$10,624,352)	Could exceed (\$10,666,483)	Could exceed (\$20,678,179)	Could exceed (\$40,705,576)
<b>Total Estimated Net Effect on General Revenue</b>	<b>Up to (\$10,624,352)</b>	<b>Could exceed (\$10,666,483)</b>	<b>Could exceed (\$20,678,179)</b>	<b>Could exceed (\$40,705,576)</b>

\*Oversight reflects costs for the Missouri Defense and Energy Independence Act at \$40 million annually (increasing by \$10 million over 4 years) by FY 2031, one-time \$10 million appropriation in FY 2027 for Grants for Independence from Foreign Influence Fund and DED & DOR FTEs.

**ESTIMATED NET EFFECT ON OTHER STATE FUNDS**

FUND AFFECTED	FY 2027	FY 2028	FY 2029	Fully Implemented (FY 2031)
Grants for Independence from Foreign Influence Fund*	\$0	\$0	\$0	\$0
<b>Total Estimated Net Effect on Other State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

\*Transfers and distributions net to zero. Numbers within parentheses: () indicate costs or losses.

**ESTIMATED NET EFFECT ON FEDERAL FUNDS**

FUND AFFECTED	FY 2027	FY 2028	FY 2029	Fully Implemented (FY 2031)
<b>Total Estimated Net Effect on All Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

**ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)**

FUND AFFECTED	FY 2027	FY 2028	FY 2029	Fully Implemented (FY 2031)
General Revenue	4 FTE	4 FTE	4 FTE	4 FTE
<b>Total Estimated Net Effect on FTE</b>	<b>4 FTE</b>	<b>4 FTE</b>	<b>4 FTE</b>	<b>4 FTE</b>

- 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 2027	FY 2028	FY 2029	Fully Implemented (FY 2031)
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

## FISCAL ANALYSIS

### ASSUMPTION

#### §620.1641 - Missouri Defense and Energy Independence Act

Officials from the **Office of Administration – Budget & Planning (B&P)** assume the proposed section 620.1641 creates the "Missouri Defense and Energy Independence Act" which provides a tax credit of up to 15% of the cumulative amount allowed to any company that incurs costs associated with converting that company to produce chemicals, metals, gasses, or rare earth minerals that will be used for projects designed to decrease or eliminate reliance on related foreign-produced products. This tax credit begins on January 1, 2027, with the cumulative amount of tax credits allowed shall not exceed \$40M per tax year. The tax credits are non-refundable and cannot be carried forward, but could be sold, transferred, or otherwise conveyed.

The proposed subsection 620.1641.6 creates the "Grants for Independence from Foreign Influence Fund" consisting of at least \$10M appropriated by the general assembly from general revenue and from any gifts, contributions, grants, or bequests from federal, private, or other sources and maintained by the state treasurer. To the extent such appropriations are made, this could cost up to \$10M annually. The Department of Economic Development (DED) will be responsible for disbursing grants from this fund to qualified companies under the above program. This section will not directly impact TSR.

The DED shall administer the program and promulgate rules, regulations, procedures, and applications for the grant. Therefore, the total fiscal impact to GR up to \$10M in disbursements (as appropriated) beginning in FY 2027, and loss of TSR up to \$40M each year.

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

#### Tax Credit

This provision creates a tax credit program starting January 1, 2027, for qualified companies. The qualified taxpayer is a company that converts their facility to produce chemicals. They are allowed to claim a credit equal to a portion of their costs incurred from converting their company from its current products to produce chemicals, metals, gases, or rare earth minerals to be used for projects designed to eliminate reliance on foreign produced chemicals.

This credit has an annual cap of \$40 million per tax year and the credits are not refundable, cannot be carried forward, but can be sold, or transferred. If the amount of tax credits claimed in a tax year under this section exceeds forty million dollars, tax credits shall be allowed based on the order in which they are claimed. No single company can receive more than 15% (\$6,000,000) of the total cap.

This will first impact the state in FY 2028, when the first tax returns are submitted claiming the credit and thereafter. This proposal states that the credits issued to a company will be in equal increments over four years. Therefore, only \$10 million can be claimed in year 1 and \$20 million in year 2. The loss to general revenue annually will be:

Fiscal Year	Loss to General Revenue
2026	\$0
2027 (year 1)	(Up to \$10,000,000)
2028 (year 1 & 2)	(Up to \$20,000,000)
2029 (year 1, 2 & 3)	(Up to \$30,000,000)
2030+ (year 1, 2, 3 & 4)	(Up to \$40,000,000)

This credit is too sunset six years after the effective date.

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 Department’s website and changes to individual income tax computer system (\$1,887). These changes are estimated to cost \$4,087. 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 Representative at a salary of \$42,952 (salary and years of service pay).

### Grants

This provision creates a new state fund that shall consist of at least \$10 million to be used to provide grants for companies that qualify to convert their facility to being independent from foreign influence. The \$10 million is to be appropriated by the General Assembly. For purposes of the fiscal note, we will show the one-time \$10 million appropriation in FY 2026.

The Department of Economic Development is to administer the grant. The grant cannot exceed \$500,000 per applicant. The money in the grant is to be used to help convert their facility. This proposal appears to give a grant to a company to do the conversion of their factory and then allows them to use that funding to claim the tax credit.

The grant program will not fiscally impact the Department.

**Oversight** does not have information to the contrary and therefore, Oversight will reflect the estimates as provided by the DOR.

Officials from the **Department of Economic Development (DED)** note:

This legislation enacts a new section in Chapter 620 (620.1646) to be known as the Missouri Defense and Energy Independence Act.

§620.1646.3 beginning on or after January 1, 2027, a qualified entity that is a nontraditional defense contractor that incurs qualified conversion costs will be allowed to claim a tax credit against the company's state tax liability in an amount equal to the qualified company's qualified amount, which shall not exceed 15% of the cumulative amount of tax credits allowed in §620.1646.4.

§620.1646.4 states the cumulative amount of tax credits allowed to all taxpayers under this section shall not exceed \$40 million per tax year. If the amount of tax credits claimed per tax year exceeds \$40 million, the tax credits shall be allowed in the order they are claimed.

§620.1646.5(1) Tax credits are not refundable. (2) cannot be carried forward. (3) may be assigned, transferred, sold, or otherwise conveyed.

§620.1646.6 A fund is created in the state treasury named Grants for Independence from Foreign Influence Fund and shall consist of at least \$10 million dollars appropriated by the general assembly.

§620.1646.6(2) the funds do not revert back to GR if unused at the end of the biennium.

§620.1646.7 states that the Department shall develop and implement a grant for independence from foreign influence. The grant will be based on qualified conversion costs incurred by a qualified company. The grant dollars are subject to appropriation. The department shall not grant award money in excess of \$500,000 per grant application.

§620.1646.9 The program will automatically sunset six years after the effective date unless reauthorized by the general assembly and terminate September 1 of the calendar year immediately following.

**Oversight** notes DED assumes the need for 3 FTE. Oversight does not have information to the contrary and therefore, Oversight will reflect the FTE estimates as provided by the DED.

Officials from the **Department of Commerce and Insurance (DCI)** assume a potential unknown decrease of premium tax revenues (up to the tax credit limit established in the bill) in FY2028 and FY2029 as a result of the creation of tax credit for converting a business to produce certain chemicals, gases, metals, and minerals. 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.

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

Officials from the **Office of the State Treasurer (STO)** 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 the STO.

**Oversight** notes that the officials from the DOR assume the tax program would grow incrementally over 4 years (increments of \$10 million per year) until it reaches the maximum cap of \$40 million per year. Therefore, Oversight will reflect the initial tax credit redemption beginning in FY 2028 and fully implement by FY 2031.

Oversight notes the proposal, Section 620.1641.6, creates "Grants for Independence from Foreign Influence Fund that "shall consist of at least \$10 million dollars appropriated by the general assembly and any gifts, contributions, grants or bequests received from federal, private, or other sources. For simplicity, Oversight assumes all funds will be utilized in the year in each they were received.

#### 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 2027 (10 Mo.)	FY 2028	FY 2029	Fully Implemented (FY 2031)
<b>GENERAL REVENUE</b>				
<u>Cost – DED (§620.1641) p.6</u>				
Personnel Service	(\$289,040)	(\$353,785)	(\$360,861)	(\$375,440)
Fringe Benefits	(\$170,705)	(\$207,636)	(\$210,482)	(\$218,985)
Expense & Equipment	(\$83,337)	(\$26,704)	(\$27,238)	(\$28,338)
<u>Total Costs – DED</u>	<u>(\$543,082)</u>	<u>(\$588,125)</u>	<u>(\$598,581)</u>	<u>(\$622,763)</u>
FTE Change – DED	3 FTE	3 FTE	3 FTE	3 FTE
<u>Cost – DOR (§620.1641) p.5</u>				
Personnel Service	(\$35,794)	(\$43,812)	(\$44,688)	(\$46,493)
Fringe Benefits	(\$28,010)	(\$33,957)	(\$34,310)	(\$35,696)
Expense & Equipment	(\$17,466)	(\$589)	(\$600)	(\$624)
<u>Total Costs – DOR</u>	<u>(\$81,270)</u>	<u>(\$78,358)</u>	<u>(\$79,598)</u>	<u>(\$82,813)</u>
FTE Change – DOR	1 FTE	1 FTE	1 FTE	1 FTE
<u>Cost – (§620.1641) Missouri Defense and Energy Independence Act Tax Credit p.5-6</u>	\$0	Up to (\$10,000,000)	Up to (\$20,000,000)	Up to (\$40,000,000)
<u>Revenue Gain – (§620.1641. 6.) Grants for Independence from Foreign Influence Fund p.7</u>	Up to (\$10,000,000)	(Unknown)	(Unknown)	(Unknown)
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE</b>	<b>Up to (\$10,624,352)</b>	<b>Could exceed (\$10,666,483)</b>	<b>Could exceed (\$20,678,179)</b>	<b>Could exceed (\$40,705,576)</b>
Estimated Net FTE Change on General Revenue	4 FTE	4 FTE	4 FTE	4 FTE
<b>GRANTS FOR INDEPENDENCE FROM FOREIGN INFLUENCE FUND</b>				

<u>FISCAL IMPACT – State Government</u>	FY 2027 (10 Mo.)	FY 2028	FY 2029	Fully Implemented (FY 2031)
<u>Transfer In – (\$620.1641. 7) Monies transferred from GR p.7</u>	Could exceed \$10,000,000	\$0	\$0	\$0
<u>Cost – Awarding grants to various companies (\$500,000 max per company) p.7</u>	(Unknown)	(Unknown)	(Unknown)	(Unknown)
<u>Transfer In – (620.1641. 1) donations, grants, interests, etc. p.7</u>	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>
<b>ESTIMATED NET EFFECT ON GRANTS FOR INDPENDENCE FROM FOREIGN INFLUENCE FUND</b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>

<u>FISCAL IMPACT – Local Government</u>	FY 2027 (10 Mo.)	FY 2028	FY 2029	Fully Implemented (FY 2031)
	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>

FISCAL IMPACT – Small Business

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

FISCAL DESCRIPTION

This act establishes the "Missouri Defense and Energy Independence Act".

For all tax years beginning on or after January 1, 2027, this act authorizes a qualified company to claim a tax credit not to exceed \$6 million for qualified conversion costs incurred by the qualified company for converting such company to produce chemicals, metals, gases, or rare

earth minerals that will be used for projects designed to decrease or eliminate reliance on foreign-produced materials.

Tax credits authorized by the act shall be issued to a qualified company in four equal annual installments. Tax credits shall not be refundable or carried forward, and shall not be transferred, sold, or assigned.

This act also establishes the "Grants for Independence from Foreign Influence Fund", which shall consist of at least \$10 million in appropriated moneys. The fund shall be used by the Department of Economic Development to provide grants to qualified companies in an amount not to exceed \$500,000. Grant funds shall be used solely for qualified conversion costs incurred before the completion of the conversion of the qualified company.

This act shall sunset on August 28, 2032, 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

Office of Administration – Budget & Planning  
Department of Revenue  
Department of Commerce and Insurance  
Department of Economic Development  
Office of the Secretary of State  
Joint Committee on Administrative Rules  
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