

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 4418H.04C  
 Bill No.: HCS for HB 1919  
 Subject: Taxation and Revenue - General; Tax Credits; Department of Revenue; Tax Incentives; Food; Agriculture; Urban Redevelopment; Department of Agriculture; Minorities  
 Type: Original  
 Date: March 22, 2022

Bill Summary: This proposal authorizes a tax credit for urban farms located in an urban area

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
General Revenue Fund*	Up to (\$200,000)	Up to (\$200,000)	Up to (\$200,000)
<b>Total Estimated Net Effect on General Revenue</b>	<b>Up to (\$200,000)</b>	<b>Up to (\$200,000)</b>	<b>Up to (\$200,000)</b>

\*Oversight notes the tax credit provision has a \$200,000 annual cap.

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: () indicate costs or losses.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2023</b>	<b>FY 2024</b>	<b>FY 2025</b>
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>			
<b>FUND AFFECTED</b>	<b>FY 2023</b>	<b>FY 2024</b>	<b>FY 2025</b>
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</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.

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2023</b>	<b>FY 2024</b>	<b>FY 2025</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

## FISCAL ANALYSIS

### ASSUMPTION

#### **Section 135.1610 - Tax Credit for Urban Farms located in an urban area**

Officials from the **Office of Administration – Budget & Planning (B&P)** assume this proposal creates a tax credit for taxpayers who establish or improve an urban farm within an urban area. If an urban farm is established or improved within a qualifying area, the qualifying taxpayer would be able to claim tax credits against their state tax liability up to 50% of eligible expenses for establishing the urban farm. The taxpayer shall not be allowed to claim a tax credit in excess of \$5,000 for each urban farm. The tax credits may be carried forward to the next three succeeding tax years. There will be a \$200,000 annual cap placed on the tax credit.

This proposal could reduce general and total state revenues up to (\$200,000) annually and could impact the calculation under Article X, Section 18(e).

Officials from the **Department of Revenue (DOR)** assume this proposal would allow a tax credit against a taxpayer's state tax liability equal to fifty percent (50%) of the eligible expenses for establishing or improving an urban farm starting on August 28, 2022, the effective date of the proposal. The tax credit cannot be transferred, sold or assigned. The credit is not refundable but can be carried forward the next three years (3). The total amount of credits that can be authorized annually is \$200,000. No taxpayer may receive more than \$5,000 in credits per each urban farm. DOR assumes the impact to General Revenue would be a loss of Up to the \$200,000 that can be authorized annually. The first tax returns claiming the credit will start being filed in January 2023 (FY 2023).

<b>Fiscal Year</b>	<b>Loss to GR</b>
2023	(Up to \$200,000)
2024	(Up to \$200,000)
2025	(Up to \$200,000)

This proposal defines an urban farm as a community-run garden but does not include personal farms or residential lots for personal use. Then this proposal adds a provision that requires the taxpayer to repay the tax credit if the urban farm is used for the personal benefit of the taxpayer instead of for producing agricultural products solely for distribution to the public for sale or for donation. Should credits be given out and then someone has used the products in violation of this provision then the credits could result in the recapture of the credit; however, the amount of the recapture is unknown.

DOR assumes this would be a new income tax credit and it would be added to the MO-TC and information about the credit would be added to DOR's website and changes would be needed in the individual income tax system. DOR notes the costs to update these items is \$3,596.50. DOR will need the following FTE should the number of credits redeemed justify the FTE.

- 1 FTE Revenue Processing Technician for every 6,000 credits redeemed
- 1 FTE Revenue Processing Technician for every 7,600 errors/correspondence generated

**Oversight** notes this proposed legislation states that no taxpayer shall claim a tax credit in excess of five thousand dollars (\$5,000) per urban farm. The cumulative amount of tax credits that may be authorized in any calendar year shall not exceed two hundred thousand dollars (\$200,000). Oversight assumes the minimum number of taxpayers that claim the tax credit created could be as low as 20 each year. In addition, the tax credits created shall not be transferred, sold, or assigned.

Therefore, **Oversight** assumes DOR can absorb the responsibilities associated with the tax credit created with existing resources. Should the number of redemptions or the number of errors generated prove to be significant, DOR may seek additional FTE through the appropriation process.

Officials from the **Missouri Department of Agriculture – Missouri Agricultural & Small Business Development Authority (MASBDA)** state MASBDA does not currently receive funds from General Revenue or Federal sources to administer any programs. All revenues are fee based and used to pay for administrative costs.

**MASBDA** assumes that a non-refundable application fee of \$100 will be charged to each applicant. MASBDA states Section 348.080 gives MASBDA the authority to collect fees and charges, as the authority determines to be reasonable, in connection with its loans, advances, insurance, commitments, and servicing.

**MASBDA** assume this is the same application fee for four (4) other MASBDA tax credit programs (New Generation Processing Entity initial application, New Generation Producer/Investor Tax Credit application, Agricultural Product Utilization Contributor contribution application, Qualified Beef Tax Credit application).

**MASBDA** notes the only program that does not charge the \$100 fee is the Family Farm Breeding Livestock Tax Credit program. The program has a review fee of 1% of the family farm loan amount and that fee is set under Section 348.500.

The current 5 employees of MASBDA will be sufficient enough to run this program and no additional equipment will need to be purchased. MASBDA cost allocation is based on percentage of time spent on each program per fiscal year by employee. Our assumption is that the Urban Farms Tax Credit program will add approximately 8% more program activity for Fiscal Year 2023. Fiscal Year 2023 estimated salary total is \$16,466 per Fiscal Note worksheet. Other administrative costs such as office supplies, postage, printing, etc.... are estimated approximately at \$1,500 for this new program.

**Oversight** notes that **MDA**, in FY 2021, awarded 12 organizations a total of \$193,999 in grants to address food insecurity in the state. The grants were awarded in a competitive grant process to help fund projects that address food insecurity within food deserts in rural and urban areas throughout the state.

However, **Oversight** notes that this proposal only concentrates on urban farms within an urban settings, and the above total includes additional money, in form of grants, for other priorities.

**Oversight** assumes, then, the \$100 would not impact state revenue(s). Therefore, **Oversight** will not report a fiscal impact for the \$100 fee that may be charged on each applicant of the tax credit program created. However, **Oversight** estimates the total amount that may be collected totals \$10,000 ( $\$100 * 100$  applicants).

**Oversight** notes this proposed legislation would grant a tax credit to taxpayers who establish an urban farm in an urban area excluding all personal farms or residential lots for personal use.

**Oversight** notes “Eligible Expenses” are defined as “expenses incurred in the construction or development of establishing an urban farm within an urban area that focuses on food production, and excludes growing of medical marijuana or industrial hemp.

The fifty percent (50%) tax credit shall not exceed a taxpayer’s state tax liability. Any amount of tax credit that exceeds the taxpayer’s state tax liability may be carried forward to the next three (3) succeeding tax years.

No taxpayer may claim a tax credit in excess of five thousand dollars (\$5,000) for each urban farm. The aggregate amount of tax credits authorized under this proposed legislation shall not exceed \$200,000 during any calendar year. Therefore, Oversight assumes the minimum number of tax credits that may be issued could be as low as 40 each year ( $\$200,000 / \$5,000$ ).

**Oversight** notes the tax credit program created would begin August 28, 2022. Oversight notes taxpayers would not file their Tax Year 2022 claiming the tax credit created until after January 1, 2023 (Fiscal Year 2023).

Therefore, **Oversight** will report a revenue reduction to GR by an amount “Up to” \$200,000 beginning in Fiscal Year 2023. Oversight notes the tax credit program created would sunset December 31st six (6) years after the effective date of this section.

**Oversight** assumes MDA is provided with core funding to handle a certain amount of activity each year. If multiple bills pass which require additional staffing and duties at substantial costs, MDA could request funding through the appropriation process. Therefore, for purpose of this fiscal note, **Oversight** will report zero impact in regards to the FTE.

Officials from the **Department of Economic Development** and the **Department of Health and Senior Services** both 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 these agencies.

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.

**Oversight** assumes SOS is provided with core funding to handle a certain amount of activity each year. **Oversight** assumes SOS could absorb the costs related to this proposal. Therefore, Oversight will reflect zero fiscal impact on the fiscal note for above agency.

<u>FISCAL IMPACT – State Government</u>	FY 2023 (10 Mo.)	FY 2024	FY 2025
<b>GENERAL REVENUE FUND</b>			
<u>Revenue Reduction - Section 135.1610</u> – Tax Credit For Establishing Urban Farms (p.3 & 6)	<u>Up to</u> (\$200,000)	<u>Up to</u> (\$200,000)	<u>Up to</u> (\$200,000)
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE</b>	<b><u>Up to</u></b> <b>(\$200,000)</b>	<b><u>Up to</u></b> <b>(\$200,000)</b>	<b><u>Up to</u></b> <b>(\$200,000)</b>

<u>FISCAL IMPACT – Local Government</u>	FY 2023 (10 Mo.)	FY 2024	FY 2025
	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>

FISCAL IMPACT – Small Business

This bill allows a small businesses to claim a tax credit against the taxpayer's state tax liability in an amount equal to 50% of the taxpayer's eligible expenses for establishing an urban farm in an urban area, as defined by the bill.

FISCAL DESCRIPTION

This bill allows a taxpayer to claim a tax credit against the taxpayer's state tax liability in an amount equal to 50% of the taxpayer's eligible expenses for establishing an urban farm in an urban area, as defined by the bill.

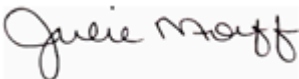
The amount of the tax credit claimed shall not exceed the amount of the taxpayer's state tax liability in the tax year for which the credit is claimed, the taxpayer shall not be allowed to claim a tax credit under this section in excess of \$5,000 for each urban farm.

The total amount of tax credits authorized shall not exceed \$200,000. These tax credits cannot be transferred, sold, or assigned. The program will sunset December 31, six years after the effective date.

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 Economic Development  
Department of Revenue  
Office of Administration – Budget & Planning  
Missouri Department of Agriculture  
Joint Committee on Administrative Rules  
Office of the Secretary of State  
Department of Health and Senior Services



Julie Morff  
Director  
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Ross Strope  
Assistant Director  
March 22, 2022