

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3927H.011
 Bill No.: HB 2089
 Subject: Tax Credits; Taxation and Revenue - Income; Taxation and Revenue - General;
 Department of Revenue; Charities
 Type: Original
 Date: January 23, 2024

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

FISCAL SUMMARY

| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | | | |
|--|----------------------------|----------------------------|----------------------------|
| FUND AFFECTED | FY 2025 | FY 2026 | FY 2027 |
| General Revenue Fund* | Up to (\$4,692,751) | Up to (\$4,692,751) | Up to (\$4,692,751) |
| Total Estimated Net Effect on General Revenue | Up to (\$4,692,751) | Up to (\$4,692,751) | Up to (\$4,692,751) |

* Oversight reflects the change in expenditures to GR due to the Section 32.115 Neighborhood Assistance Program & 135.460 – Youth Opportunities Tax Credit where both tax credits allow 70% contribution (up from previous 50%).

| 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 |
| | | | |
| | | | |
| Total Estimated Net Effect on FTE | 0 | 0 | 0 |

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 32.115 – Affordable Housing and Neighborhood Assistance

Officials from the **Office of Administration- Budget & Planning (B&P)** note:

This proposal would increase the value of the neighborhood assistance tax credits to 70% of each contribution. B&P notes that the three-year average redemption amount for neighborhood assistance was \$8,599,528 from FY21 - FY23. B&P further notes that had the tax credits been set at 70% of donations, redemptions would have been \$12,039,339 for neighborhood assistance. Therefore, this provision could reduce GR by \$3,439,811 annually beginning in FY25.

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

This proposal also changes the Neighborhood Assistance Tax Credit program. The Neighborhood Assistance Tax Credit program has a \$16 million cap with the credit based on 50% of the contribution made. For informational purposes DOR is providing the amount authorized, issued and redeemed for this credit.

| Year | Authorized | Issued | Total Redeemed |
|---------------|------------------|------------------|------------------|
| FY 2023 | \$15,028,834.00 | \$12,330,085.00 | \$9,107,306.80 |
| FY 2022 | \$12,673,134.00 | \$11,113,005.75 | \$8,067,535.14 |
| FY 2021 | \$11,924,548.00 | \$9,048,913.00 | \$8,623,742.15 |
| FY 2020 | \$13,890,324.00 | \$8,703,761.00 | \$9,471,230.74 |
| FY 2019 | \$15,035,823.00 | \$10,377,614.00 | \$8,947,215.78 |
| FY 2018 | \$14,981,906.00 | \$12,367,630.00 | \$10,922,806.90 |
| FY 2017 | \$14,041,962.00 | \$14,490,650.00 | \$14,831,654.53 |
| FY 2016 | \$13,553,852.00 | \$13,761,480.00 | \$10,318,970.97 |
| FY 2015 | \$15,974,536.00 | \$11,435,785.00 | \$8,230,285.75 |
| FY 2014 | \$11,513,379.00 | \$9,640,126.00 | \$10,848,983.24 |
| FY 2013 | \$14,996,900.00 | \$10,144,225.00 | \$7,392,112.96 |
| FY 2012 | \$11,577,412.00 | \$8,493,103.00 | \$9,757,094.83 |
| TOTALS | \$165,192,610.00 | \$131,906,377.75 | \$116,518,849.79 |

This proposal increases the percent of the contribution from 50% to 70% for the amount of the tax credit a person receives. An increase of \$3,439,811. It is unclear if this would encourage more taxpayers to contribute and claim the tax credit. The three-year average of the redemptions of the program has been \$8,599,528. However, since this program has an annual cap, it is not expected to result in any additional impact to the state.

Oversight shows the utilization of the tax credit under Section 32.115 as follow:

| | FY 2021 ACTUAL | FY 2022 ACTUAL | FY 2023 ACTUAL |
|---------------------------|-----------------------|-----------------------|-----------------------|
| Certificates Issued (#) | 1,240 | 1,371 | 1,387 |
| Projects/Participants (#) | 67 | 65 | 71 |
| Amount Authorized | \$11,924,548 | \$12,673,134 | \$15,028,834 |
| Amount Issued | \$9,048,913 | \$11,113,006 | \$12,330,085 |
| Amount Redeemed | \$8,623,742 | \$8,067,535 | \$9,107,307 |

DED Form 14

Oversight notes the current average redemption total in last three years was \$8,599,528 at 50% contribution percentage.

Oversight notes the 70% contribution would total to \$12,039,339 of total average redemption in the same period.

Oversight note that the difference between 50% and 70% contribution redemption would total to \$3,439,811 (\$12,039,339 - \$8,599,528).

Oversight notes this proposal does not change the \$16 million maximum cap, instead increases the percent of the contribution from 50% to 70% for the amount of the tax credit. This will allow for those who claim the tax credit to receive a greater amount of funds, but will not affect the overall maximum cap available under the proposal. (Allowing potentially for fewer participants who are receiving greater amount of tax credit)

Therefore, **Oversight** will reflect the credit difference of \$3,439,811 to the general revenue in the fiscal note.

Section 135.460 – Youth Opportunities

Officials from the **Office of Administration- Budget & Planning (B&P)** note:

This proposal would increase the value of the youth opportunities tax credit to 70% of each contribution. B&P notes that the three-year average redemption amount was \$3,132,348 from FY21 – FY23. B&P further notes that had the tax credits been set at 70% of donations, redemptions would have been \$4,385,288. Therefore, B&P estimates that this provision could reduce GR by \$1,252,939 annually beginning in FY25.

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

This proposal also changes the Youth Opportunities Tax Credit program. The Youth Opportunities tax credit program has a \$6 million cap with the credit based on 50% of the contribution made. For informational purposes DOR is providing the amount authorized, issued and redeemed for this credit.

| Year | Authorized | Issued | Total Redeemed |
|---------------|-----------------|-----------------|-----------------|
| FY 2023 | \$2,247,858.00 | \$4,139,385.00 | \$2,987,947.79 |
| FY 2022 | \$5,706,067.00 | \$3,039,904.00 | \$2,283,352.48 |
| FY 2021 | \$5,288,870.00 | \$1,983,794.00 | \$4,084,410.34 |
| FY 2020 | \$1,212,623.00 | \$4,086,770.50 | \$5,217,305.70 |
| FY 2019 | \$5,169,666.00 | \$5,822,539.00 | \$4,040,657.57 |
| FY 2018 | \$6,826,426.00 | \$5,726,775.00 | \$4,818,711.26 |
| FY 2017 | \$5,642,936.00 | \$6,349,945.00 | \$5,451,115.04 |
| FY 2016 | \$6,375,728.00 | \$5,411,972.00 | \$4,706,636.11 |
| FY 2015 | \$7,041,012.00 | \$5,325,506.00 | \$4,247,824.65 |
| FY 2014 | \$5,941,601.50 | \$5,080,128.00 | \$5,239,666.42 |
| FY 2013 | \$5,609,784.00 | \$5,571,555.00 | \$3,906,262.62 |
| FY 2012 | \$5,843,692.62 | \$4,152,310.83 | \$4,979,894.20 |
| TOTALS | \$62,906,264.12 | \$56,690,584.33 | \$51,963,784.18 |

This proposal increases the percent of the contribution from 50% to 70% for the amount of the tax credit a person receives. An increase of \$1,247,428. It is unclear if this would encourage more taxpayers to contribute and claim the tax credit. The three-year average of the redemptions of the program has been \$3,118,570. However, since this program has an annual cap, it is not expected to result in any additional impact to the state.

Oversight shows the utilization of tax credit under Section 135.460 as follow:

| | FY 2021 ACTUAL | FY 2022 ACTUAL | FY 2023 ACTUAL |
|---------------------------|----------------|----------------|----------------|
| Certificates Issued (#) | 760 | 974 | 1,504 |
| Projects/Participants (#) | 33 | 36 | 13 |
| Amount Authorized | 5,288,870 | \$5,706,067 | \$2,247,858 |
| Amount Issued | 1,983,794 | \$3,039,904 | \$4,139,385 |
| Amount Redeemed | 4,084,410 | \$2,324,687 | \$2,987,948 |

DED Form 14

The Department will need to update DOR's computer programs and forms for these changes. The DOR estimate the total cost of the changes at \$8,923.

Oversight notes the current average redemption total in last three years was \$3,132,348 at 50% contribution percentage.

Oversight notes the 70% contribution would total to \$4,385,288 of total average redemption in the same period.

Oversight note that the difference between 50% and 70% contribution redemption would total to \$1,252,939 (\$4,385,288 - \$3,132,348).

Oversight notes this proposal does not change the \$6 million maximum cap, instead increases the percent of the contribution from 50% to 70% for the amount of the tax credit. This will allow for those who claim the tax credit receive greater amount of funds, but will not affect the overall maximum cap available under the proposal. (Allowing potentially for fewer participants who are receiving greater amount of tax credit)

Therefore, **Oversight** will reflect the combined (Sections 32.115 & 135.460) credit difference of \$4,692,751, showing the difference from 50% to 70% in both above Section(s), to the general revenue in the fiscal note for FY 2025 and thereafter.

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 FUND | | | |
| <u>Revenue Reduction – Section 32.115 – Neighborhood Assistance Program (increase 50% to 70%) p. 3-4</u> | Up to (\$3,439,811) | Up to (\$3,439,811) | Up to (\$3,439,811) |
| <u>Revenue Reduction – Section 135.460 – Youth Opportunities Tax Credit (increase 50% to 70%) p. 4-6</u> | Up to (\$1,252,940) | Up to (\$1,252,940) | Up to (\$1,252,940) |
| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | Up to (\$4,692,751) | Up to (\$4,692,751) | Up to (\$4,692,751) |

| <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

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

NEIGHBORHOOD ASSISTANCE TAX CREDIT

Current law authorizes a tax credit for business firms that engage in providing affordable housing assistance activities or market rate housing in distressed communities, with the amount of such tax credits equal to 50% percent of the total amount contributed.

This bill increases such tax credit to 70% of the total amount contributed (Section 32.115 RSMo).

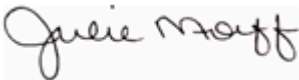
YOUTH OPPORTUNITIES AND VIOLENCE PREVENTION TAX CREDIT

Current law authorizes a tax credit in the amount of 50% of contributions made to certain youth programs. This bill increases such tax credit to 70% of the amount of such contributions made (Section 135.460).

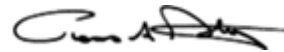
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

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



Julie Morff
Director
January 23, 2024



Ross Strobe
Assistant Director
January 23, 2024