

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5580H.011
 Bill No.: HB 2705
 Subject: Taxation and Revenue - General; Tax Credits; Department of Revenue; Taxation and Revenue - Income; Animals
 Type: Original
 Date: April 12, 2024

Bill Summary: This proposal authorizes a tax credit to offset fees from the adoption of rescue animals.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
General Revenue*	Up to (\$746,829)	Up to (\$718,613)	Up to (\$722,051)
Total Estimated Net Effect on General Revenue	Up to (\$746,829)	Up to (\$718,613)	Up to (\$722,051)

*Oversight notes the above fiscal impact reflects the maximum utilization of tax credit amount (\$500,000) with DORs (3) FTE annually and ITSD costs in FY 2025.

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
General Revenue – DOR	3 FTE	3 FTE	3 FTE
Total Estimated Net Effect on FTE	3 FTE	3 FTE	3 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

Officials from the **Office of Administration – Budget & Planning (B&P)** assume this proposal creates a tax credit for moneys paid by a taxpayer to an animal shelter for a qualified pet adoption, up to \$125. A taxpayer shall not be allowed to claim more than two such tax credits per tax year. Up to \$500,000 tax credits may be claimed per calendar year, on a first-come first year basis. The tax credits are refundable, but cannot be sold, transferred, or otherwise conveyed. In addition, the tax credits may not be carried forward to future tax years. B&P notes that because there is no carryforward allowed, any credit claims beyond the \$500,000 annual limit will not be redeemable.

Taxpayers who return, abuse, release, kill, or sell an animal may not claim the tax credit. DOR is allowed to verify the status of the adoption at the time of the tax credit claim. While the language states that taxpayers shall return any redeemed credit if the animal is not cared for, DOR is only allowed to verify the status at the time of the credit claim. B&P defers to DOR for potential administrative costs from this provision.

B&P notes that this tax credit would become effective August 28, 2024, and apply to tax year 2024 costs. For the purpose of this fiscal note, B&P assumes that only costs incurred after August 28, 2024, would qualify. Therefore, while this proposal will begin impact FY25 revenues, claims may not reach the annual cap the first year. Therefore, B&P estimates that this proposal could reduce TSR and GR by up to \$500,000 annually beginning FY25.

Officials from the **Department of Revenue (DOR)** assume that for all tax years beginning on or after January 1, 2024, a taxpayer shall be allowed to claim a tax credit against the taxpayer's state tax liability for a qualified pet adoption made by the taxpayer during the tax year. The amount claimed shall be the amount paid by the taxpayer to the animal shelter for the adoption, not to exceed \$125 per animal. A taxpayer may claim no more than two tax credits per year for the adoption of no more than two animals.

This is a refundable tax credit with an annual cap of \$500,000. The credits cannot be sold, transferred or assigned nor carried forward. The Department assumes this would be a loss to General Revenue of up to the \$500,000 annual cap starting in FY 2025 the first year the credits can be redeemed.

This proposal requires that the tax credit be repaid if the animal is returned, abused, released, sold, killed or otherwise not cared for. The administering agency is to verify the adoption status with animal shelters and animal control agencies. Therefore, a tracking program would need to be established to track the animals through the life of the credit program. DOR estimates the cost at \$20,000.

This proposal does not specify which department is to administer this credit. Verification and certification processes are usually handled by other agencies. Once another agency verifies a person's qualifications or expenses, they are given a receipt that is attached to the tax return for DOR to process. Requiring DOR to do the verification is outside of the DOR's normal administrative scope and can be viewed as a conflict of interest. The Department of Agriculture inspects animal shelters and therefore should be named the administrator.

DOR's existing tax credit staff is no longer able to take on any additional tax credits without additional resources. If DOR is made the administrator, then the Department will need 1 Auditor FTE (\$50,462) and 2 Associate Customer Service Representatives FTE (\$35,880) to do the necessary verifications and process the tax returns. 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). These changes are estimated to cost \$8,923.

Oversight notes the DOR assumes the need for (1) Auditor and (2) Associate Customer Service Representatives due to the administrative scope that the Department usually does not provide. Oversight does not have any information to the contrary. Therefore, Oversight will reflect the DOR FTE costs in the fiscal note beginning FY 2025.

Oversight notes the DOR additionally assume the need for ITSD costs for tracking software, software and database updates, and creation of the tax credit forms totaling \$28,923. Therefore, Oversight will reflect one time DOR/ITSD costs in the fiscal note, in FY 2025.

Oversight notes section 135.790.2 allows taxpayer to receive up to \$125 (1 tax credit) for qualified pet adoption. Under the proposal, qualified adoption means any adaption by taxpayer of an animal from an animal shelter. Furthermore, the cumulative amount of tax credits allowed to all taxpayers pursuant to this section shall not exceed five hundred thousand dollars.

Oversight notes Section and Subsection 135.790.3 allows for maximum of up to two such a tax credits to be claimed by individual annually.

Oversight notes that [Kansas City Pet Project Organization](#) provides list of adoption fees as follows:

- Adult mixed breed dogs: \$75-150
- Small breed dogs and puppies: \$150-300
- Cats: \$25-\$75
- Kittens: \$50 – \$125

Additionally, the [Human Society of Missouri](#) website shows fees ranging anywhere from \$10 to \$300 that could include various services such as deworming, heartworm testing, flea treatment, registrations, spay or neuter surgeries, electronic chips, etc.

Oversight notes that per [Human Society of Missouri by the numbers](#) there were 7,000 animal adoptions in Missouri in 2023.

Oversight is not sure if all the people who adopted animals in 2023 were Missouri taxpayers or any detailed individual circumstance and payment within the adaption process. However, for simplicity, Oversight will note utilization of this tax credit up to \$500,000 annually beginning in FY 2025.

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

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			
<u>Costs - §135.790 – DOR administration of tax credit p.4</u>			
Personnel Service	(\$101,852)	(\$124,666)	(\$127,160)
Fringe Benefits	(\$76,121)	(\$92,236)	(\$93,146)
Expense & Equipment	(\$39,933)	(\$1,711)	(\$1,745)
<u>Total Costs – DOR</u>	(\$217,906)	(\$218,613)	(\$222,051)
FTE Change	3 FTE	3 FTE	3 FTE

<u>FISCAL IMPACT – State Government</u>	FY 2025 (10 Mo.)	FY 2026	FY 2027
<u>Costs</u> - §135.790 – DOR/ITSD changes for tracking, database, and forms p.4	(\$28,923)	\$0	\$0
<u>Reduction in Revenue</u> – §135.790 – Qualified Pet Adoption Tax Credit \$500,000 annually p.5	Up to (<u>\$500,000</u>)	Up to (<u>\$500,000</u>)	Up to (<u>\$500,000</u>)
ESTIMATED NET EFFECT ON GENERAL REVENUE	Up to (<u>\$746,829</u>)	Up to (<u>\$718,613</u>)	Up to (<u>\$722,051</u>)
Estimated Net FTE Change on General Revenue	3 FTE	3 FTE	3 FTE

<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

Beginning January 1, 2024, a taxpayer will be allowed a tax credit for a qualified pet adoption of up to \$125. No more than two tax credits will be allowed per tax year, per taxpayer.

The taxpayer can submit receipts provided by the animal shelter to the Department of Revenue (DOR) when claiming the tax credit. The total amount of tax credits to be issued annually can not exceed \$500,000. If the number of claims for the tax credit exceeds that figure, the credits will be distributed in the order in which they are claimed.

The credits will be nonrefundable, and they can not be assigned, transferred, sold, or otherwise conveyed. No credit will be carried forward to any subsequent tax year.

This program will automatically sunset six years after its effective date.

If the adopted animal is returned, abused, released, sold, killed, or otherwise not cared for, the taxpayer will forfeit any tax credits which have not yet been redeemed. The Department of

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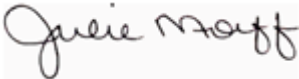
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Revenue may seek any records or status as to the welfare of adopted animals at the time of the taxpayer's credit application.

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
Joint Committee on Administrative Rules
Office of the Secretary of State
Oversight Division



Julie Morff
Director
April 12, 2024



Ross Strobe
Assistant Director
April 12, 2024