COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0311S.03C
Bill No.: SCS for SB 184
Subject: Taxation and Revenue - Sales and Use; Tax Credits
Type: Original
Date: March 27, 2023

Bill Summary: This proposal modifies provisions relating to tax relief for child-related expenses.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
General Revenue Fund*	Up to ($49,571,621 to $52,458,341)	Up to ($72,578,357 to $76,042,421)	Up to ($72,547,357 to $76,011,421)
Total Estimated Net Effect on General Revenue	**Up to ($49,571,621 to $52,458,341)**	**Up to ($72,578,357 to $76,042,421)**	**Up to ($72,547,357 to $76,011,421)**

***Oversight** notes the above cost includes the maximum cap in tax credits of $20 million per year plus the potential add-on 15% adjustment ($3M) for childcare desert for all three Sections. Section(s) 135.1310 & 135.1325 "Child Care Contribution Tax Credit Act" and the "Employer-Provided Child Care Assistance Tax Credit Act" respectively, begin in FY 2024. Section 135.1350 "Child Care Providers Tax Credit" begins in FY 2025. Additionally, the cost includes FTE for DOR, DED and DESE. Lastly, the cost includes DESE & DOR costs for ITSD creation of database and software changes.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
School District Trust Fund (0688)	($658,893 to $1,621,133)	($790,672 to $1,945,360)	($790,672 to $1,945,360)
Parks and Soils State Sales Tax Fund(S) (0613 & 0614)	($65,889 to $162,113)	($79,067 to $194,536)	($79,067 to $194,536)
Conservation Commission Fund (0609)	($80,714 to $202,642)	($96,857 to $243,170)	($96,857 to $243,170)
Total Estimated Net Effect on Other State Funds	**($805,496 to $1,985,888)**	**($966,596 to $2,383,066)**	**($966,596 to $2,383,066)**

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
General Revenue Fund – DED	5 FTE	5 FTE	5 FTE
General Revenue Fund – DESE	4 FTE	4 FTE	4 FTE
General Revenue – DOR	1 FTE	1 FTE	1 FTE
Total Estimated Net Effect on FTE	**10 FTE**	**10 FTE**	**10 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 2024	FY 2025	FY 2026
Local Government	**($2,681,695 to $6,598,011)**	**($3,218,034 to $7,917,614)**	**($3,218,034 to $7,917,614)**

FISCAL ANALYSIS

ASSUMPTION

Section 135.1310 – Child Care Contribution Tax Credit Act

Officials from the **Office of Administration - Budget and Planning (B&P)** note this section would create a tax credit for donations made to eligible childcare providers. The tax credits would begin for tax year 2023 and be equal to 75% of a qualifying donation. B&P notes that this provision may impact revenues beginning in FY24, when tax year 2023 annual income tax returns are filed.

A taxpayer may receive a tax credit of $100 ($175 donation) to $200,000 ($350,000 donation). The tax credits are non-refundable, unless a qualifying contributor is a 501(c)(3) non-profit. The tax credits may not be sold, transferred, or otherwise conveyed. The tax credits may be carried back one year and/or carried forward for up to five years.

Per subdivision 135.1310.8(1), no more than $20 million in tax credits may be authorized per year. However, per subdivision 135.1310.8(2) if the full $20 million is authorized, then an addition 15% ($3 million) may be authorized. The additional $3 million may only be used for contributions made to childcare facilities located within a childcare desert. Therefore, B&P estimates that this provision may reduce TSR and GR by up to $23 million annually beginning in FY24.

Officials from the **Department of Revenue (DOR)** note starting January 1, 2023, a qualified taxpayer would be able to claim a tax credit against their state tax liability, in the amount of 75% of a qualified contribution to a qualified childcare provider. The qualifying contribution could be cash, stocks, bonds, or securities. To be a qualified childcare provider the provider must be licensed under Section 210.221. The minimum amount of the credit that may be issued in credits is $100 ($175 donation) while the maximum qualifying amount of the credit is limited to $200,000 ($350,000 donation) annually.

The child care provider receiving the contribution must issue a written verification of the contribution to the taxpayer and file a copy with the Department of Economic Development (DED). This proposal allows the credit to be recaptured if the contribution is not used for providing child care.

This credit is not refundable and cannot be transferred or sold, but they can be carried forward up to five years or carried back one year. The credits are to be distributed on a first-come, first-serve basis with a cumulative $20 million annual cap. This proposal will sunset on December 31, 2029.

This proposal allows that if the cumulative $20 million cap is authorized in a single year, then the credit can be increased by 15%. However, the increased amount is reserved for child care providers in a child care desert. It should be noted that the cap resets to $20 million each year.

This proposal does establish a provision in Section 135.1310.7, that should a tax exempt organization as defined by the IRS qualify to receive the credit, they would be able to have the credit refunded to them without having a state tax liability. This allows DOR to establish a procedure should such an organization qualify for the credit.

This provision says the credit is to begin with tax years beginning on or after January 1, 2023. However, this proposal would not be effective until August 28, 2023 (FY 2024) and contributions could not be made nor credits distributed until after that date. This could impact the Department starting when the tax returns are filed in January 2024.

Fiscal Year	**Loss to General Revenue**
2024	(Could exceed $20,000,000)
2025	(Could exceed $20,000,000)
2026	(Could exceed $20,000,000)

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 their individual income tax system. DOR notes the costs to update these items is $7,193. DOR assumes DOR will need at least 1 Associate Customer Service Representative ($31,200) to handle the new credits being redeemed. Additional FTE may be needed in the future if the number of new credit redemptions exceed the following amounts. DOR would ask for additional FTE through the budget process if justified.

• 1 FTE Associate Customer Service Representative for every 6,000 credits redeemed
• 1 FTE Associate Customer Service Representative for every 7,600 errors/correspondence generated

<u>Section 135.1325 – Employer Provided Child Care Assistance Tax Credit Act</u>

Officials from the **Office of Administration - Budget and Planning (B&P)** note this section would create a tax credit for qualified childcare expenditures. The tax credits would begin for tax year 2023 and be equal to 30% of qualifying expenditures. B&P notes that this provision may impact revenues beginning in FY24, when tax year 2023 annual income tax returns are filed.

A taxpayer may receive a tax credit of up to $200,000 ($260,000 expenditures). The tax credits are non-refundable, unless a qualifying taxpayer is a 501(c)(3) non-profit. The tax credits may not be sold, transferred, or otherwise conveyed. The tax credits may be carried back one year and/or carried forward for up to five years.

Per subdivision 135.1325.7(1), no more than $20 million in tax credits may be authorized per year. However, per subdivision 135.1325.7(2) if the full $20 million is authorized, then an addition 15% ($3 million) may be authorized. The additional $3 million may only be used for childcare facility expenditures located within a childcare desert. Therefore, B&P estimates that this provision may reduce TSR and GR by up to $23 million annually beginning in FY24.

Officials from the **Department of Revenue (DOR)** note starting January 1, 2023 a qualified taxpayer would be able to claim a tax credit in the amount of 30% of a qualified child care expenditures paid or incurred with respect to a child care facility. This proposal identifies what is a qualifying expenditure and facility. The maximum amount of credits that can be issued to any taxpayer is $200,000 annually.

This credit is not refundable, and cannot be transferred or sold but they can be carried forward up to five years and carried back one year. The credits are to be distributed on a first-come, first-serve basis with a cumulative $20 million annual cap. This proposal will sunset on December 31, 2029.

This proposal allows that if the cumulative $20 million cap is authorized in a single year, then the credit can be increased by 15%. However, the increased amount is reserved for child care providers in a child care desert. It should be noted that the cap resets to $20 million each year.

This proposal does establish a provision in Section 135.1325.6, that should a tax exempt organization as defined by the IRS qualify to receive the credit, they would be able to have the credit refunded to them without having a state tax liability. This allows DOR to establish a procedure should such an organization qualify for the credit.

This provision says the credit is to begin with tax years beginning on or after January 1, 2023. However, this proposal would not be effective until August 28, 2023 (FY 2024) and contributions could not be made nor credits distributed until after that date. This could impact the Department starting when the tax returns are filed in January 2024.

Fiscal Year	**Loss to General Revenue**
2024	(Could exceed $20,000,000)
2025	(Could exceed $20,000,000)
2026	(Could exceed $20,000,000)

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 the website and changes would be needed in the individual income tax system. DOR notes the costs to update these items is $7,193. DOR assumes the Associate Customer Service Representative needed for the previous credit would also handle this one. Additional FTE may be needed in the future if the number of new credit redemptions exceed the following amounts. DOR would ask for additional FTE through the budget process if justified.

• 1 FTE Associate Customer Service Representative for every 6,000 credits redeemed
• 1 FTE Associate Customer Service Representative for every 7,600 errors/correspondence generated

Section 135.1350 – Child Care Providers Tax Credit Act

Officials from the **Office of Administration - Budget and Planning (B&P)** note this section would create two tax credits starting in tax year 2024. For childcare providers with at least three employees, the provider may claim a tax credit equal to qualified withholdings and/or a tax credit equal to 30% of capital expenditures. A childcare provider must make at least $1,000 in capital expenditures to claim the capital expenditures credit. B&P notes that this provision may impact revenues beginning in FY25, when tax year 2024 annual income tax returns are filed.

A taxpayer may receive a maximum tax credit of up to $200,000 per year. B&P notes that the $200,000 per taxpayer limit is for both tax credits. Therefore, a taxpayer may either use $200,000 in withholding taxes or $1,000 in capital expenditures and any combination in between to claim the maximum credit.

The tax credits are non-refundable, unless a qualifying taxpayer is a 501(c)(3) non-profit. The tax credits may not be sold, transferred, or otherwise conveyed. The tax credits may be carried back one year and/or carried forward for up to five years.

Per subdivision 135.1350.7(1), no more than $20 million in tax credits may be authorized per year. However, per subdivision 135.1350.7(2) if the full $20 million is authorized, then an addition 15% ($3 million) may be authorized. The additional $3 million may only be used for childcare facility expenditures located within a childcare desert. Therefore, B&P estimates that this provision may reduce TSR and GR by up to $23 million annually beginning in FY25.

Officials from the **Department of Revenue (DOR)** note starting January 1, 2024, a qualified child care provider with three or more employees would be able to claim a tax credit in the amount equal to the child care provider's eligible employer withholding tax and may claim another credit in an amount up to 30% of the child care provider's capital expenditures. To be a qualified child care provider the provider must be licensed under Section 210.221. Capital expenditures must be greater than $1,000 to qualify for the credit. No child care provider shall receive more than $200,000 in tax credits annually.

To claim the credit the child care provide must submit an application to the Department of Economic Development (DED). If DED approves the application, they will issue the tax credits.

These two credits are not refundable, and cannot be transferred or sold but they can be carried forward up to five years or carried back one year. The credits are to be distributed on a first-come, first-serve basis with a shared cumulative $20 million annual cap. This proposal will sunset on December 31, 2029.

This proposal allows that if the cumulative $20 million cap is authorized in a single year, then the credit can be increased by 15%. However, the increased amount is reserved for child care providers in a child care desert. It should be noted that the cap resets to $20 million each year.

This proposal does establish a provision in Section 135.1310.6, that should a tax exempt organization as defined by the IRS qualify to receive the credit, they would be able to have the credit refunded to them without having a state tax liability. This allows DOR to establish a procedure should such an organization qualify for the credit.

This provision says the credit is to begin with tax years beginning on or after January 1, 2024. This could impact the Department starting when the tax returns are filed in January 2025.

Fiscal Year	**Loss to General Revenue**
2024	$0
2025	(Could exceed $20,000,000)
2026	(Could exceed $20,000,000)

This would be two new income tax credits and they would be added to the MO-TC and information about the credits would be added to the website and changes would be needed in the individual income tax system. DOR notes the costs to update these items is $14,386. DOR assumes the Associate Customer Service Representative needed for the previous credits would also handle these. Additional FTE may be needed in the future if the number of new credit redemptions exceed the following amounts. DOR would ask for additional FTE through the budget process if justified.

• 1 FTE Associate Customer Service Representative for every 6,000 credits redeemed
• 1 FTE Associate Customer Service Representative for every 7,600 errors/correspondence generated

Oversight notes that currently DOR is requesting only 1 FTE (Associate Customer Representative) for each 6.000 redeemed and 7,600 error correspondence generated. Oversight will show the 1 FTE given that the proposal contains three different tax credits which could affect 2,200 child care facilities and may be taken by corporations, non-profit organizations, individuals and partnerships <u>and</u> that contributions may be in the form of cash, stocks, bonds, other marketable securities, or real property.

Oversight notes Section 135.1310 allows for tax credit at minimum amount of any tax credit issued shall not be less than one hundred dollars, and shall not exceed two hundred thousand dollars per tax year.

Oversight notes that there could be a minimum of 115 ($23 million / $200,000) and maximum of 230,000 ($23 million / $100) individual claims.

Oversight notes that Section 135.1325 allows for tax credits associated with the expenditures paid or incurred with respect to a child care facility.

Oversight notes if all current childcare facilities file a claim under this proposal, there could be as many as 2,500 claims, but potentially many more new developed child care facilities, that would need to be processed by the DOR. (See DESE response for current totals of licensed childcares in MO below)

Oversight notes that DOR's request is reasonable, given the uncertainty of the actual utilization of the tax credits at this time, and will note the cost of 1 FTE (Associate Customer Service Representative at $31,200 annually) to the general revenue in the fiscal note beginning FY 2024.

However, **Oversight** notes the DOR might, in the future, be requesting two additional FTE to appropriately handle the potentially greater amount of tax credit returns, customer service questions, and process of the tax credits as specified in Section(s) 135.1310, 135.1325 & 135.1350.

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

<u>Section 135.1310, RSMo, creates the "Child Care Contribution Tax Credit Act"</u>
This tax credit will be administered by the Department of Economic Development.

Child Care Desert - A census tract with poverty rate at least 20% or a median family income of less than 80% statewide average and at least 500 people or 33% of the population are located at least 1/2 mile away from a child care provider in urbanized areas or at least 10 miles away in rural areas.

Tax years beginning on or after 1/1/2023. Tax credit for contribution program. 75% tax credits. Minimum amount of any tax credit issued cannot be less than $100 and cannot exceed $200K per tax year. Credits are not transferable, sellable or refundable. 5-year carry forward period. 1-year carry back period. Tax credits approved first-come-first-served.

Program cap: $20M per CY. If the full amount is authorized in a CY, the cap for the next CY will be increased by 15%. That increased amount must be used for child care providers located in a child care desert. The DED Director must publish the new amount. Contribution verifications must be turned into DED with 60 days of the contribution date. Donations must be used for child care for youth age 12 and younger, including by acquiring or improving child care facilities, equipment, or services, or improving staff salaries, staff training, or the quality of child care.

The department may promulgate rules. This program will sunset on 12/31/2029, unless reauthorized by the general assembly.

<u>Section 135.1325, RSMo, creates the "Employer Provided Child Care Assistance Tax Credit Act"</u>

This tax credit will be administered by the Department of Economic Development.

Applies to tax years beginning on or after 1/1/2023.

Program cap: $20M per calendar year. If the full amount is authorized in a CY, the cap for the next CY will be increased by 15%. That increased amount must be used for child care providers located in a child care desert. The DED Director must publish the new amount. A tax credit for employers' eligible child care assistance expenditures. The tax credit is for up to 30% of child care expenditures, with a total taxable year limit of $200,000 per taxing entity. Credits are not transferable, sellable or refundable. 5-year carry forward period and 1-year carry back period. Tax credits approved first-come-first-served.

The department may promulgate rules.

This program will sunset on 12/31/2029, unless reauthorized by the general assembly.

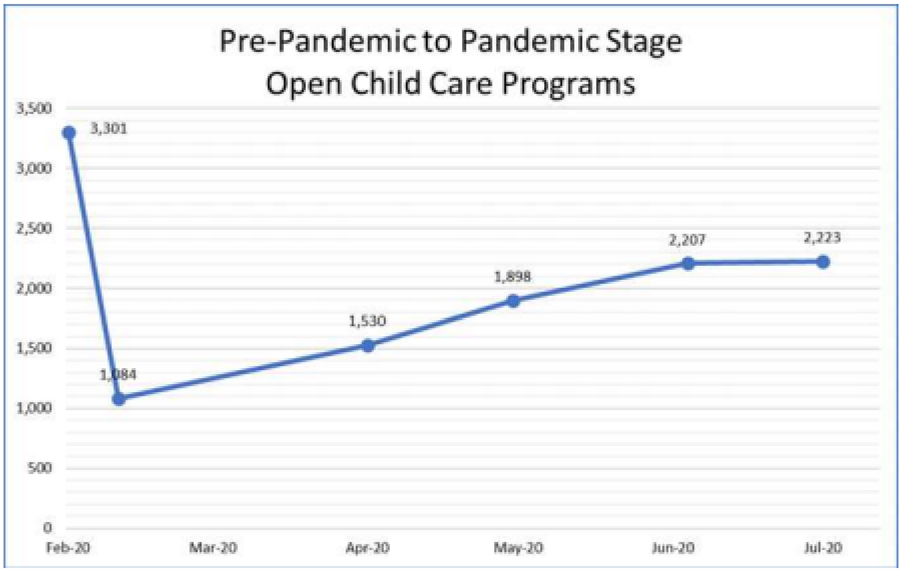
135.1350. creates the "Child Care Providers Tax Credit Act". Administered by the Department of Elementary and Secondary Education.

DED will need to hire 5.0 FTE to administer the two DED programs included in the act. The two DED administered tax credit programs will likely reduce annual TSR by $20M each ($40M total)

Oversight notes that per an article from Childcare Aware of Missouri, as shown in the chart below, since the pandemic, of the 115 counties in Missouri, the number of child care desert counties have increased by 49%.

	February 2020	**June 2020**	**Increase (%)**
Total Counties	115	115	
Total Population	5,988,927	5,988,927	
Desert Counties	63	94	49%

Oversight notes that recent research from the Child Care Landscape in Missouri noted there were 3,301 open child care programs in CCAMO's database prior to the pandemic. (These include fully licensed programs and home care providers who do not require licensing.) As of late July 2020, the number of open programs decreased to 2,223 and most are operating at partial capacity. Many programs closed temporarily at the beginning of the pandemic.



Resulting Effect on Counties that are Child Care Deserts

[***https://mochildcareaware.org/wp-content/uploads/2020/08/Child-Care-Landscape-Data-Report-Full-Report.pdf***](https://mochildcareaware.org/wp-content/uploads/2020/08/Child-Care-Landscape-Data-Report-Full-Report.pdf)

Oversight notes that for informational purposes, the Office of Childhood (DESE) provided Oversight with last six years statistic on licensed childcare facilities in Missouri as follows:

Year	Licensed Childcare Provider – Sum
2017	1,676
2018	1,594
2019	1,488
2020	1,191
2021	1,324
Reported as of 11/2022	1,176

Oversight notes the Missouri Childcareaware research shows that throughout FY 2020, 1078 facilities closed or temporarily closed their door to service the Missouri communities. Additionally, the Missouri Office of Childhood data shows continued decline of licensed childcare facilities in Missouri throughout the last five years.

Oversight notes that Section 135.1310 "Child Care Contribution Tax Credit Act" allows taxpayers (corporations, charitable organizations which are exempt from federal income tax and whose Missouri unrelated business taxable income, if any, would be subject to the state income tax, and individuals or partnerships subject to the state income tax) to claim a tax credit against state tax liability for the tax year in which a verified contribution was made.

Oversight notes the taxpayer is allowed to claim this credit against the taxpayer's state tax liability for the tax year in which a verified contribution was made in an amount equal to up to seventy-five percent of the verified contribution to a childcare provider

Oversight notes that under this section, the minimum amount of any tax credit issued shall not be less than one hundred dollars, and shall not exceed two hundred thousand dollars per tax year.

Oversight notes that any childcare facility receiving funds from taxpayers must provide the taxpayer with contribution verification. In cases where such a facility fails to do so it must provide the taxpayer with a refund of his or her contribution.

Oversight notes that the cumulative amount of tax credits authorized pursuant to this section shall not exceed twenty million dollars for each calendar year. Additionally, this section allows for an additional 15% ($ 3 million add-on) in tax credits to be issued specifically to childcare facilities located in childcare deserts in Missouri. Therefore, Oversight will note the overall potential impact under Section 135.1310 could potentially reach <u>Up to $23 million</u> annually beginning in <u>FY 2024</u>.

Oversight notes that Section 135.1325 <u>"Employer Provided Child Care Assistance Tax Credit</u> Act" allows, after January 1, 2023, for a taxpayer to claim a tax credit in an amount equal to thirty percent of the qualified child care expenditures paid or incurred with respect to a child care facility. Additionally, the maximum amount of any tax credit issued under this section shall not exceed two hundred thousand dollars per taxpayer per tax year.

Oversight notes the qualified expenditure includes to acquire, construct, rehabilitate, or expand property that will be, or is, used as part of a child care facility that is either operated by the taxpayer or contracted with by the taxpayer and which does not constitute part of the principal residence of the taxpayer or any employee of the taxpayer.

Oversight notes the cumulative amount of tax credits authorized pursuant to this section shall not exceed twenty million dollars for each calendar year. Furthermore, this section allows for an additional 15% ($ 3 million add-on) in tax credits to be issued specifically to childcare facilities located in childcare deserts in Missouri. Therefore, Oversight will note the overall potential impact under Section 135.1310 could potentially reach <u>Up to $23 million</u> annually beginning in <u>FY 2024.</u>

Oversight notes the Section(s) 135.1310 & 135.1325 require DED to assure implementation and compliance with both provisions. The DED assumes it will need 5 FTE in order to fully comply with the provisions. **Oversight** does not have any information to the contrary. Therefore, Oversight will note the DED projected FTE costs of 5 Senior Economic Development Specialists at $74,664 annually including fringe benefits and equipment with expense beginning in FY 2024.

Officials from the **Department of Elementary and Secondary Education (DESE)** assume Section 135.1350 proposes to develop the "Child Care Providers Tax Credit Act." This tax credit is designed to support childcare providers with a tax credit towards eligible employer withholding tax and capital expenditure investments. DESE assumes a new tax credit section would be required to administer this program. The team: one coordinator, one administrative support assistant and two program specialists, would be responsible for approval issuance, and monitoring of the credits for approximately 2,500 licensed childcare providers in the state.

Oversight notes Section 135.1350 "Child Care Providers Tax Credit Act" beginning on or after January 1, 2024, allows a childcare provider with three or more employees to claim a tax credit in an amount equal:

- to the child care provider's eligible employer withholding tax, and
- up to thirty percent of the child care provider's capital expenditures

Oversight notes that no tax credit for capital expenditures shall be allowed if the capital expenditures are <u>less than one thousand dollars</u> and the amount of any tax credit issued under this section shall not exceed <u>two hundred thousand dollars</u> per childcare provider per tax year.

Oversight notes that the cumulative amount of tax credits authorized pursuant to this section shall not exceed twenty million dollars for each calendar year. Additionally, this section allows for an additional 15% ($ 3 million add-on) in tax credits to be issued specifically to childcare facilities located in childcare deserts in Missouri. Therefore, Oversight will note the overall potential impact under Section 135.1310 could potentially reach <u>Up to $23 million</u> annually beginning in <u>FY 2025</u>.

Oversight notes all childcare providers claiming the tax credit must submit an application for the tax credit for preliminary approval to DESE.

Oversight notes this Section states that DESE may promulgate rules and adopt statements of policy, procedures, forms and guidelines to implement and administer the provisions of this section.

Oversight notes the DESE states it will need 1 Program Coordinator ($68,808 annually), 1 Administrative Support Assistant, and 2 Program Specialist in order to full implement and comply with the required provisions under this Section. **Oversight** does not have any information to the contrary. Therefore, Oversight will note the DESE projected FTE costs in the fiscal note beginning FY 2025.

<u>DESE – ITSD Cost</u>

Official from the **Department of Elementary and Secondary Education (DESE)** notes:

DESE is a consolidated agency under OA-ITSD. It is assumed that every new IT project/system will be bid out because all ITSD resources are at full capacity. This section will require DESE to administer the new Child Care Providers Tax Credit. DESE assumes the administration of this new credit would require the development and programming of a new system to track the tax credit applications, approvals and monitoring data. DESE estimates a cost of $500,000 for the development and initial programming with ongoing annual costs of $50,000.

Oversight does not have any information to the contrary. Therefore, Oversight will reflect a DESE ITSD impact in FY 2024 at $500,000 and $50,000 annually thereafter in the fiscal note.

Oversight notes this Section allows for taxpayers, on or after January 1 2024, to request DESE to issue preliminary findings for the potential tax credit redemption authorization prior tax credit being given. Therefore, **Oversight** will note the onset of FTE and ITSD cost impact beginning in FY 2024.

<u>Section 144.030 – Diaper Sales Tax Exemption</u>

Officials from the **Office of Administration - Budget and Planning (B&P)** note this proposal would exempt the sales of children's diapers from sales tax beginning August 28, 2023.

<u>Diaper (Child) Sales Tax Exemption</u>
Based on research, B&P found that the average amount spent on diapers was $1,000 during the first year and then $500 to $900 per year until toilet trained. Based on information from the University of Michigan Hospital, the average age until children are toilet trained is 2.5 years. Based on information provided by the United State Census 2020 population estimates (the most recent complete year available), there were approximately 217,943 children living in Missouri ages 0-2 years old, with 71,649 being less than one year old.

Therefore, B&P estimates total sales of $144,796,000 [(71,649 x $1,000) + (146,294 children x $500)] up to $194,535,960 [(71,649 x $1,000) + (146,294 children x $900)] may be impacted by this proposal. B&P estimates that this provision could reduce TSR by $6,117,631 to $8,219,144 annually. Using the population weighted average sales tax rate of 4.07% for 2022, B&P further estimates that this provision could reduce local sales tax collections by $5,893,197 to $7,917,614 annually.

Table 1: Estimated Sales Tax Exemption for Children's Diapers

	FY 2024		FY 2025+	
<u>State Funds</u>	Low	High	Low	High
General Revenue	($3,619,900)	($4,863,399)	($4,343,880)	($5,836,079)
Education	($1,206,633)	($1,621,133)	($1,447,960)	($1,945,360)
Conservation	($150,829)	($202,642)	($180,995)	($243,170)
DNR	($120,663)	($162,113)	($144,796)	($194,536)
Total State Revenue	($5,098,026)	($6,849,287)	($6,117,631)	($8,219,144)
<u>Local Funds</u>				

Local Sales Tax	($4,910,998)	($6,598,011)	($5,893,197)	($7,917,614)

Officials from the **Department of Revenue (DOR)** note Beginning August 28, 2023, the tax levied and imposed under Chapter 144 (Section 144.030.2(47)) on all retail sales of kid's diapers shall be exempt from taxation. This exemption extends to the local sales tax rate as well as the state sales tax rate. The current state sales tax rate of is 4.225%. DOR notes they use a 4.07% weighted average local tax rate. The current state tax rate is distributed as:

General Revenue is	3%	
School District Trust Fund is	1%	(Section 144.701)
Conservation Commission Fund is	.125%	(Article IV, Section 43(a))
Parks, Soil & Water Funds	.1%	(Article IV, Section 47(a))

<u>Kid Diapers</u>

The Department notes that the average child wears diapers for three years before becoming fully toilet trained. DOR found the price of diapers vary from $0.16 per diaper for generics to $0.60 for name brand. Prices of diapers also depend on the size of the diaper. Estimates by various children's organizations indicate that an infant in the first year of life goes through 2,500 diapers. The next two years as toddlers they go through 1,500 diapers annually.

Wearing Diaper	How Many	Low Price per Diaper	High Price per Diaper	Total Cost Low	Total Cost High
First Year (Size 1)	2,500	0.16	0.31	400	775
Second Year (Size 3)	1,500	0.18	0.38	270	570
Third Year (Size 5)	1,500	0.29	0.60	435	900

Based on the Department of Health and Senior Services, the average number of resident births from 2018-2020 was 71,554. Given that 3 years' worth of children are wearing diapers in any one year (1 set of infants and 2 sets of toddlers) DOR estimates the following:

Births Annually	71,554
# of kids in Diapers Annually	214,662
# of Diapers Annually	
infant	178,885,000
toddler (2yrs)	214,662,000
total (kids * diapers)	393,547,000

Since this would start on August 28, 2023, there would still be two months in FY 2024 in which the tax would be collected. The remaining 10 months would result in a loss to the state sales tax funds and local funds of the following:

State Funds	FY 2024 (10 months)		FY 2025+	
	Low	High	Low	High
General Revenue	($1,976,679)	($4,015,968)	($2,372,015)	($4,819,162)
School Districts	($658,893)	($1,338,656)	($790,672)	($1,606,387)
Conservation	($80,714)	($163,985)	($96,857)	($196,782)
Park, Soil & Water	($65,889)	($133,866)	($79,067)	($160,639)
Local Funds	($2,681,695)	($5,448,330)	($3,218,034)	($6,537,996)

DOR notes this proposal would require one time computer programming changes and form changes. This is estimated to cost $7,193.

Officials from the **Department of Natural Resources** defer to the **Department of Revenue** for the potential fiscal impact of this proposal.

Oversight notes the Park, Soil, and Water Sales Tax funds are derived from the one-tenth of one percent sales and use tax pursuant to Article IV Section 47 (a) thus DNR's sales taxes are constitutional mandates. Oversight notes the proposed sales tax exemption of diapers will reduce the sales tax revenue distributed to the DNR's funds. Therefore, Oversight will reflect the B&P's and DOR's fiscal impact estimates to the Park, Soil, and Water Sales Tax funds.

Officials from the **Missouri Department of Conservation** assume this proposal would have an unknown fiscal impact. The Conservation Sales Tax funds are derived from one-eighth of one percent sales and use tax pursuant to Article IV Section 43 (a) of the Missouri Constitution. The Department defers to the Department of Revenue as it is responsible for tax collection and would be better able to estimate the anticipated fiscal impact that would result from this proposal.

Oversight notes the Conservation sales funds are derived from the one-eighth of one percent sales and use tax pursuant to Article IV Section 43 (a) thus MDC's sales taxes are constitutional mandates. Oversight notes the proposed sales tax exemption of diapers will reduce the sales tax revenue distributed to the Conservation fund. Therefore, Oversight will reflect the B&P's and DOR's fiscal impact estimates for MDC's funds.

Officials from the **City of Kansas City** assume the proposal will have no fiscal impact on their city.

Officials from the **City of Springfield** anticipate a negative fiscal impact of an undetermined amount.

Oversight notes the above local political subdivision stated this proposal would have a negative fiscal impact on their respective city of an indeterminate amount. Oversight notes the proposed sales tax exemption of diapers may reduce the sales tax revenue distributed to all local taxing entities. Therefore, Oversight will note B&P and DOR's estimates for all local political subdivisions on the fiscal note.

Oversight only reflects the responses received from state agencies and political subdivisions; however, other local political subdivisions were requested to respond to this proposed legislation but did not. A listing of political subdivisions included in the Missouri Legislative Information System (MOLIS) database is available upon request.

Responses regarding the proposed legislation as a whole

Oversight will note the one-time cost at $35,965, associated with the updates of DOR's sales and income tax systems for all sections within the proposal, in the fiscal note beginning FY 2024.

Officials from the **Department of Social Services** 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.

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.

FISCAL IMPACT – State Government	FY 2024 (10 Mo.)	FY 2025	FY 2026
GENERAL REVENUE			
Cost – Section 135.1310 "Child Care Contribution Tax Credit Act" p. (3-4)	Up to ($23,000,000)	Up to ($23,000,000)	Up to ($23,000,000)
Cost – Section 135.1325 "Employer Provided Child Care Assistance Tax Credit Act" p. (4-6)	Up to ($23,000,000)	Up to ($23,000,000)	Up to ($23,000,000)
Costs – DOR FTE Section(s) 135.1310 & 135.1325 p. (4-6)			
Personnel Service	($26,000)	($31,824)	($32,460)
Fringe Benefits	($24,473)	($27,195)	($27,427)
Expense & Equipment	($10,081)	($570)	($582)
Other Cost – ITSD Updates p. (16)	($35,965)	$0	$0
Total Costs – DOR	($96,519)	($59,589)	($60,469)
FTE Change	1 FTE	1 FTE	1 FTE
Costs – DED Section(s) 135.1310 & 135.1325 p. (9)	Up to…	Up to…	Up to…
Personnel Service	($311,100)	($380,786)	($388,402)
Fringe Benefits	($181,324)	($220,382)	($223,221)
Expense & Equipment	($71,496)	($22,272)	($22,717)
Total Costs – DED	($563,920)	($623,440)	($634,340)
FTE Change	5 FTE	5 FTE	5 FTE
Cost – Section 135.1350 "Child Care Providers Tax Credit Act." p. (6-13)	$0	Up to ($23,000,000)	Up to ($23,000,000)
Costs – DESE Section(s) 135.1310 & 135.1325 p. (12-13)	Up to…	Up to…	Up to…
Personnel Service	($226,032)	($230,553)	($235,164)
Fringe Benefits	($146,903)	($148,594)	($150,319)
Expense & Equipment	($61,568)	($44,167)	($45,050)
Total Costs – DESE	($434,503)	($473,313)	($430,533)
FTE Change	4 FTE	4 FTE	4 FTE

Cost – DESE – ITSD New Database and ongoing maintenance (p.13)	($500,000)	($50,000)	($50,000)
Revenue Reduction - §144.030 – Sales tax exemption on child diapers p. (13-16)	($1,976,679 to $4,863,399)	($2,372,015 to $5,836,079)	($2,372,015 to $5,836,079)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**Up to ($49,571,621 to $52,458,341)**	**Up to ($72,578,357 to $76,042,421)**	**Up to ($72,547,357 to $76,011,421)**
Estimated Net FTE Change on General Revenue	10 FTE	10 FTE	10 FTE
SCHOOL DISTRICT TRUST FUND			
Revenue Reduction - §144.030 – Sales tax exemption on child diapers p. (13-16)	($658,893 to $1,621,133)	($790,672 to $1,945,360)	($790,672 to $1,945,360)
ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND	**($658,893 to $1,621,133)**	**($790,672 to $1,945,360)**	**($790,672 to $1,945,360)**
PARKS AND SOILS STATE SALES TAX FUNDS			
Revenue Reduction - §144.030 – Sales tax exemption on child diapers p. (13-16)	($65,889 to $162,113)	($79,067 to $194,536)	($79,067 to $194,536)
ESTIMATED NET EFFECT ON PARKS AND SOILS STATE SALES TAX FUNDS	**($65,889 to $162,113)**	**($79,067 to $194,536)**	**($79,067 to $194,536)**
CONSERVATION COMMISSION FUND			

Revenue Reduction - §144.030 – Sales tax exemption on child diapers p. (13-16)	($80,714 to $202,642)	($96,857 to $243,170)	($96,857 to $243,170)
ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND	**($80,714 to $202,642)**	**($96,857 to $243,170)**	**($96,857 to $243,170)**

FISCAL IMPACT – Local Government	FY 2024 (10 Mo.)	FY 2025	FY 2026
LOCAL GOVERMENT			
Revenue Reduction - §144.030 – Sales tax exemption on child diapers p. (13-16)	($2,681,695 to $6,598,011)	($3,218,034 to $7,917,614)	($3,218,034 to $7,917,614)
ESTIMATED NET EFFECT ON LOCAL GOVERMENT	**($2,681,695 to $6,598,011)**	**($3,218,034 to $7,917,614)**	**($3,218,034 to $7,917,614)**

FISCAL IMPACT – Small Business

The proposal could have a direct fiscal impact to small business childcare facilities and/or small businesses that sell diapers.

FISCAL DESCRIPTION

This act establishes provisions relating to tax relief for child-related expenses.

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 and Planning
Department of Economic Development
Department of Elementary and Secondary Education
Department of Natural Resources
Department of Revenue
Department of Social Services
Missouri Department of Conservation
Office of the Secretary of State
Joint Committee on Administrative Rules
City of Springfield
City of Kansas City

Julie Morff
Director
March 27, 2023

Ross Strope
Assistant Director
March 27, 2023

KLP:LR:OD