

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 0881-04  
Bill No.: SB 285  
Subject: Taxation and Revenue - Income; Tax Credits  
Type: Original  
Date: January 27, 2017

Bill Summary: This proposal would reduce the corporate income tax rate and make changes to several tax credit programs.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>				
FUND AFFECTED	FY 2018	FY 2019	FY 2020	Fully Implemented (FY 2021)
General Revenue	\$72,783,489	\$99,587,133	\$119,587,133 or \$65,634,153	\$149,587,133 or Up to \$52,471,769
<b>Total Estimated Net Effect on General Revenue</b>	<b>\$72,783,489</b>	<b>\$99,587,133</b>	<b>\$119,587,133 or \$65,634,153</b>	<b>\$149,587,133 or Up to \$52,471,769</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>				
FUND AFFECTED	FY 2018	FY 2019	FY 2020	Fully Implemented (FY 2021)
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: ( ) indicate costs or losses. This fiscal note contains 11 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>				
<b>FUND AFFECTED</b>	<b>FY 2018</b>	<b>FY 2019</b>	<b>FY 2020</b>	<b>Fully Implemented (FY 2021)</b>
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</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 2018</b>	<b>FY 2019</b>	<b>FY 2020</b>	<b>Fully Implemented (FY 2021)</b>
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>				
<b>FUND AFFECTED</b>	<b>FY 2018</b>	<b>FY 2019</b>	<b>FY 2020</b>	<b>Fully Implemented (FY 2021)</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

## FISCAL ANALYSIS

### ASSUMPTION

Officials from the **University of Missouri - Economic and Policy Analysis Research Center** assume that, if enacted, this proposal would reduce the corporate income tax rate and repeal or cap the amount of redemptions for several tax credit programs.

#### Corporate Income Tax

This proposal would reduce the corporate tax rate contingent upon whether net general revenue meets a growth trigger. The trigger in this proposal is "... the amount of net general revenue collected in the previous fiscal year exceeds the highest amount of net general revenue collected in any of the three fiscal years prior to such fiscal year by at least \$150 million." The first year this revenue trigger is met, the corporate tax rate would be reduced to 5%. The second year, the rate would be further reduced to 4%. EPARC officials assumed the revenue trigger would be met each year, and provided a maximum impact estimate.

EPARC officials stated the latest FY 2016 corporate income tax collections data indicates a liability of \$269,764,901 at a current tax rate of 6.25% and used that figure as a baseline. If the corporate income tax is reduced to 5% in 2019, EPARC officials estimated the corporate income tax liability would be reduced to \$215,811,921, which would reduce net general revenue in 2019 by \$53,952,980. If the corporate income tax is further reduced to 4% in 2020, EPARC officials estimate the corporate income tax liability would be reduced to \$172,649,537, which would reduce net general revenue in 2020 by \$97,115,364.

#### Neighborhood Assistance

This proposal would implement a \$5 million redemption cap on the Neighborhood Assistance Tax Credit Program beginning in FY 2019. FY 2016 redemptions in this program amounted to \$10,318,971. Implementing a \$5 million cap on these redemptions in FY 2019 would increase net general revenue by an estimated \$5,318,971.

#### Affordable Housing

This proposal would implement a \$7 million redemption cap on the Affordable Housing Tax Credit Program beginning in FY 2019. FY 2016 redemptions in this program amounted to \$8,484,673. Implementing a \$7 million cap on these redemptions in FY 2019 would increase net general revenue by an estimated \$1,484,673.

ASSUMPTION (continued)

Development Tax

This proposal would repeal the Development Tax Credit Program. FY 2016 redemptions in this program amounted to \$893,519. Repealing this tax credit program would increase net general revenue by an estimated \$893,519.

Development Reserve Contribution

This proposal would implement a \$20 million redemption cap on the Development Reserve Contribution Credit Program. FY 2016 redemptions in this program amounted to \$0. Implementing a \$7 million cap on this program would not have an impact on net general revenue.

Export Finance Contribution

This proposal would implement a \$20 million redemption cap on the Export Finance Contribution Credit Program. FY 2016 redemptions in this program amounted to \$0. Implementing a \$20 million cap on this program would not have an impact on net general revenue.

Infrastructure Development Contribution

This proposal would implement a \$20 million redemption cap on the Infrastructure Development Contribution Credit Program. FY 2016 redemptions in this program amounted to \$13,094,319. Implementing a \$20 million cap on these redemptions would not have an impact on net general revenue.

Missouri BUILD Tax Credit

This proposal would prohibit any new issuance of credits for the Missouri BUILD Tax Credit Program in FY 2019. FY 2016 redemptions in this program amounted to \$8,389,872. Restricting the issuance of credits may or may not have an impact in future redemptions, therefore it is not possible to estimate the impact this would have on net general revenue.

Senior Citizens Property Tax Credit

This proposal would repeal the renters' portion of the Senior Citizens Property Tax Credit Program. Our simulation uses 2015 income tax data that indicates renters' redeemed \$52,401,137 in credits for this program. Repealing the renters' portion of this tax credit program would increase net general revenue by an estimated \$52,401,137.

ASSUMPTION (continued)

Low-Income Housing

This proposal would implement a \$160 million redemption cap on the Low-Income Housing Tax Credit Program for FY 2018, a \$140 million redemption cap for FY 2019, a \$120 million redemption cap for FY 2020, and a \$90 million redemption cap for FY 2021. FY 2016 redemptions in this program amounted to \$170,028,538. Implementing a \$160 million cap on these redemptions in FY 2018 would increase net general revenue by an estimated \$10,028,538. Implementing a \$140 million cap on these redemptions in FY 2019 would increase net general revenue by an estimated \$30,028,538. Implementing a \$120 million cap on these redemptions in FY 2020 would increase net general revenue by an estimated \$50,028,538. Implementing a \$90 million cap on these redemptions in FY 2021 would increase net general revenue by an estimated \$80,028,538.

Community Development Tax Credit

This proposal would prohibit any new authorizations of credits for the Community Development Tax Credit Program in FY 2019. FY 2016 redemptions in this program amounted to \$47. Restricting the authorizations of credits may or may not have an impact in future redemptions, therefore it is not possible to estimate the impact this would have on net general revenue.

Neighborhood Preservation

This proposal would implement a \$1 million redemption cap on the Neighborhood Preservation Credit Program beginning in 2018. FY 2016 redemptions in this program amounted to \$2,963,957. Implementing a \$1 million cap on these redemptions would increase net general revenue by an estimated \$1,963,957.

Historic Preservation

This proposal would implement a \$50 million redemption cap on the Historic Preservation Credit Program beginning in FY 2018. FY 2016 redemptions in this program amounted to \$57,496,338. Implementing a \$50 million cap on these redemptions would increase net general revenue by an estimated \$7,496,338.

Small Business Guaranty, Seed Capital, Brownfield Demolition, and Qualified Research

This proposal would repeal the Small Business Guaranty, Seed Capital, Brownfield Demolition and Qualified Research Credit Programs. There were no FY 2016 redemptions for these programs; therefore, repealing these tax credit programs would not have any foreseeable impact on net general revenue.

ASSUMPTION (continued)

This table summarizes the EPARC impact estimates for the tax credit changes in this proposal.

Tax Credit Program	FY 2016 Redemptions	Proposed Cap or Repeal	Estimated Revenue Impact
Neighborhood Assistance	\$10,318,971	\$5,000,000	\$5,318,971
Affordable Housing	\$8,484,673	\$7,000,000	\$1,484,673
Development Tax	\$893,519	Repeal	\$893,519
Development Reserve	\$0	\$20,000,000	\$0
Export Finance Fund	\$0	\$20,000,000	\$0
Infrastructure Development	\$13,094,319	\$20,000,000	\$0
BUILD	\$8,389,872	None	None
Senior Citizens Property Tax (Renters)	\$52,401,137	Repeal	\$52,401,137
Low-Income Housing	\$170,028,538	\$160,000,000 (FY 2018) \$140,000,000 (FY 2019) \$120,000,000 (FY 2020) \$90,000,000 (FY 2021)	\$10,028,538 \$30,028,538 \$50,028,538 \$80,028,538
Community Development Bank	\$47	None	None
Neighborhood Preservation	\$2,963,957	\$1,000,000	\$1,963,957
Small Business Guaranty	0	Repeal	None
Historic Preservation	\$57,496,338	\$50,000,000	\$7,496,338
Seed Capital	0	Repeal	0
Brownfield Demolition	0	Repeal	0
Qualified Research Expense	0	Repeal	0

ASSUMPTION (continued)

This table summarizes the EPARC estimates of fiscal impact for the corporate income tax rate reduction and those tax credit program changes which EPARC officials assume would have an impact on state revenues.

Change in Revenue	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>
Corporate Income Tax	\$0	(\$53,952,980)	(\$97,115,364)	(\$97,115,364)
Neighborhood Assistance	\$0	\$5,318,971	\$5,318,971	\$5,318,971
Affordable Housing	\$0	\$1,484,673	\$1,484,673	\$1,484,673
Development	\$893,519	\$893,519	\$893,519	\$893,519
Senior Citizens Property	\$52,401,137	\$52,401,137	\$52,401,137	\$52,401,137
Low Income Housing	\$10,028,538	\$30,028,538	\$50,028,538	\$80,028,538
Neighborhood Preservation	\$1,963,957	\$1,963,957	\$1,963,957	\$1,963,957
Historic Preservation	\$7,496,338	\$7,496,338	\$7,496,338	\$7,496,338
Total	\$72,783,489	\$45,634,153	\$22,471,769	\$52,471,769

**Oversight** will indicate a revenue reduction for the FY 2019 corporate income tax rate reduction in FY 2020 and a revenue reduction for the FY 2020 corporate income tax rate reduction in FY 2021. Oversight is aware that some corporate filers would reduce estimated tax payments in anticipation of a reduction in tax due, but will include the entire amount of estimated revenue reduction in the year the returns would be filed.

ASSUMPTION (continued)

**Oversight** notes the proposed revenue trigger would have been met in three of the most recent five years; Oversight assumes the revenue trigger for the corporate income tax changes may or may not be met, and will indicate an impact of \$0 or the EPARC estimate for FY 2019 in FY 2020; for FY 2021, Oversight will indicate an impact of \$0 or “Up to” the EPARC estimate for the FY 2020 rate reduction.

**Oversight** also notes the proposed tax credit changes could have an impact on whether or not the net revenue trigger is met but will not include that potential impact in this fiscal note. Finally, Oversight notes that limiting the redemption of tax credits could have consequences for the programs that rely on tax credits as a part of project funding, and could reduce the value of tax credits previously issued and outstanding. Those potential issues are not considered as part of the primary impact of this proposal, however, and will not be included in this fiscal note.

According to officials from the **Office of the Secretary of State (SOS)**, 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 \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize 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 our office can sustain with our core budget. Therefore, we reserve 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.

Officials from the **Joint Committee on Administrative Rules** assume this proposal would have no fiscal impact on their organization.

Officials from the **Office of Administration - Division of Budget and Planning**, the **Department of Economic Development**, and the **Department of Revenue** did not respond to our request for information.



<u>FISCAL IMPACT - State Government</u>	FY 2018 (10 Mo.)	FY 2019	FY 2020	Fully Implemented (FY 2021)
<b>GENERAL REVENUE</b>				
<u>Revenue reduction</u>				
Corporate income tax rate reduction Section 143.071, RSMo.	\$0	\$0	\$0 or (\$53,952,980)	\$0 or (Up to \$97,115,364)
<u>Additional revenue</u>				
Redemption cap on Neighborhood Assistance Tax Credit Program Section 32.100-32.125, RSMo.	\$0	\$5,318,971	\$5,318,971	\$5,318,971
<u>Additional revenue</u>				
Redemption cap on Affordable Housing Tax Credit Program Section 32.105- 32.125, RSMo.	\$0	\$1,484,673	\$1,484,673	\$1,484,673
<u>Additional revenue</u>				
Redemption cap on Development Tax Credit Program Section 32.100-32.125, RSMo.	\$893,519	\$893,519	\$893,519	\$893,519
<u>Additional revenue</u>				
Repeal of renters' portion of Senior Citizens Property Tax Credit Program Section 135.10-135.035, RSMo.	\$52,401,137	\$52,401,137	\$52,401,137	\$52,401,137

<u>FISCAL IMPACT - State Government (Continued)</u>	FY 2018 (10 Mo.)	FY 2019	FY 2020	Fully Implemented (FY 2022)
<u>Additional revenue</u>				
Redemption cap on Low Income Housing Tax Credit Program Section 135.350-135.363, RSMo.	\$10,028,538	\$30,028,538	\$50,028,538	\$80,028,538
<u>Additional revenue</u>				
Redemption cap on Neighborhood Preservation Tax Credit Program Section 135.475-135.487, RSMo.	\$1,963,957	\$1,963,957	\$1,963,957	\$1,963,957
<u>Additional revenue</u>				
Redemption cap on Historic Preservation Tax Credit Program Section 253.545-253.561, RSMo.	<u>\$7,496,338</u>	<u>\$7,496,338</u>	<u>\$7,496,338</u>	<u>\$7,496,338</u>
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b><u>\$72,783,489</u></b>	<b><u>\$99,587,133</u></b>	<b>\$119,587,133 or <u>\$65,634,153</u></b>	<b>\$149,587,133 or Up to <u>\$52,471,769</u></b>

FISCAL IMPACT -  
Local Government

FY 2018  
(10 Mo.)

FY 2019

FY 2020

Fully  
Implemented  
(FY 2020)

\$0

\$0

\$0

\$0

FISCAL IMPACT - Small Business

Incorporated small businesses would have a direct fiscal impact from this proposal.

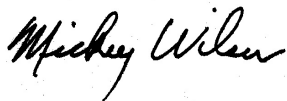
FISCAL DESCRIPTION

This proposal would reduce the corporate income tax rate and make changes to several tax credit programs.

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 the Secretary of State  
Joint Committee on Administrative Rules  
University of Missouri  
Economic and Policy Analysis Research center



Mickey Wilson, CPA  
Director  
January 27, 2017

Ross Strobe  
Assistant Director  
January 27, 2017