COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0881-06
Bill No.: SCS for SB Nos. 285 & 17
Subject: Taxation and Revenue - Income; Tax Credits
Type: Original
Date: February 20, 2017

Bill Summary: This proposal reduces the corporate income tax and makes modifications to several tax credit programs

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2018	FY 2019	FY 2020	Fully Implemented (FY 2021)
General Revenue	Less than $70,631,862	$25,679,480 or $79,632,460	($8,886,540) or $88,228,824	$21,112,854 or $118,228,218
Total Estimated Net Effect on General Revenue	**Less than $70,631,862**	**$25,679,480 or $79,632,460**	**($8,886,540) or $88,228,824**	**$21,112,854 or $118,228,218**

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

Numbers within parentheses: ( ) indicate costs or losses. This fiscal note contains 19 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2018	FY 2019	FY 2020	Fully Implemented (FY 2021)
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)				
FUND AFFECTED	FY 2018	FY 2019	FY 2020	Fully Implemented (FY 2021)
General Revenue	1 FTE	1 FTE	1 FTE	1 FTE
Total Estimated Net Effect on FTE	**1 FTE**	**1 FTE**	**1 FTE**	**1 FTE**

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

ESTIMATED NET EFFECT ON LOCAL FUNDS				
FUND AFFECTED	FY 2018	FY 2019	FY 2020	Fully Implemented (FY 2021)
Local Government	**$0**	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Office of Administration's Division of Budget and Planning** (**B&P**) assume this proposal would make changes to multiple tax credits beginning in FY 2018 and reduce the corporate income tax beginning in tax year 2019.

This proposal would eliminate the following tax credit programs:
- Capital Tax Credit – beginning in FY 19 (3-year average redemptions $0)
- Loan Guarantee Fee – beginning in FY 18 (3-year average redemptions $0)
- Qualified Research – beginning in FY 18 (3-year average redemptions $0)
- Seed Capital– beginning in FY 18 (3-year average redemptions $0)
- Senior Citizen Property Tax Credit – would disallow renters from claiming the credit beginning in FY 18 (FY16 redemptions $54.9 million)
- BUILD – beginning in tax year 2018 (3-year average redemptions $8.3 million)
- Brownfield Tax Credit – would remove the section allowing credits for the demolition and redevelopment of former automobile manufacturing plants the (fiscal note for TAFP SB 861 (2016) estimated the cost of this extension was $0 to greater than $6 million)

In addition, this proposal would create authorization caps for the following tax credits:
- Affordable Housing Assistance – $7 million beginning in FY19 (3-year average authorizations $10 million)
- Historic Preservation – $50 million beginning in FY18 (3-year average authorizations $111.5 million)
- MDFB Infrastructure Development Bonds – special approval the cap $20 million
- Neighborhood Assistance – $15 million beginning in FY18 (3-year average authorizations $13.7 million)
- Neighborhood Preservation – $10 million beginning in tax year 2018 (3-year average authorizations $7.8 million)
- Low Income Housing – $160 million in FY 18, $140 million in FY19, $120 million in FY 20, then $90 million beginning in FY 21 (3-year average authorizations $160.4 million)

B&P notes that the three-year average authorizations for Affordable Housing, Historic Preservation, Low Income Housing, and Neighborhood Preservation are all greater than the newly created authorization caps. B&P estimated the savings to General Revenue and Total State Revenue for these lowered authorization caps using information from DED.

ASSUMPTION (continued)

Beginning in tax year 2019 the corporate income tax rate shall be reduced twice from 6.25% to 5.0% and again to 4.0%. The reduction in the tax rate will only occur if the net General Revenue collected in the previous fiscal year exceeds the highest amount of net General Revenue collected in any of the three previous fiscal years by at least $150 million. For the purpose of this fiscal note, B&P will assume that the rate reductions occur in tax year 2019 and 2020.

Table 2 shows the estimated impact from the rate reduction.

Fiscal Year	Impact to GR
2019	(28,100,000)
2020	(78,600,000)
2021	(101,100,000)

Based on the above analysis, B&P estimates that this proposal will increase Total State Revenue and General Revenue by $66.9 million in FY 2018 and $39.2 million once fully implemented and every year thereafter.

Table 2 shows the estimated total impact to Total State Revenue and General Revenue.

Tax Change	2018	2019	2020	Fully Implemented
Corporate Rate Reduction	0	(28,100,000)	(78,600,000)	(101,100,000)
Tax Credit Reductions	56,300,000	66,800,000	78,000,000	205,000,000
Net Impact to GR	56,300,000	38,700,000	(600,000)	103,900,000

Officials at the **Economic & Policy Analysis Research Center** (**EPARC**) assume if enacted, this bill would reduce the corporate income tax rate, repeal the renters' portion of the Senior Citizens Property Tax Credit, and repeal or cap the amount of authorizations for several tax credit programs.

§143.071 Corporate Tax Rate

Officials at the **EPARC** assume this bill would reduce the corporate tax rate contingent upon whether Net General Revenue meets a fiscal year Net General Revenue trigger. The revenue trigger this bill proposed is defined as such, "A rate reduction shall not occur unless 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

ASSUMPTION (continued)

million." The first year this revenue trigger is met the corporate tax rate will be reduced to 5%. The second year this revenue trigger is met the corporate tax rate will be further reduced to 4%. In this response we will assume that the revenue trigger will be met every year providing a maximum impact estimate for 2019 and 2020.

The latest FY 2016 corporate income tax collections data indicates a liability of $269,764,901 at a current tax rate of 6.25%. We will use this figure as our baseline. If the corporate income tax were reduced to 5% in 2019, we estimate the corporate income tax liability would reduce to $215,811,921. Subtracting this figure from our baseline liability we find it would reduce Net General Revenue in 2019 by $53,952,980. If the corporate income tax were reduced to 4% in 2020, we estimate the corporate income tax liability would reduce to $172,649,537. Subtracting this figure from our baseline liability we find it would reduce Net General Revenue in 2020 by $97,115,364.

Officials at the **Department of Revenue** (**DOR**) assume that beginning January 1, 2019, the corporate tax rate reduces each calendar year. In Fiscal Year 2016, $280.8 Million was reported as Net Corporate collections. The Department estimated the below reduction in Total State Revenue as a result of the decrease in the Corporate Income Tax rate.

Year	Impact
2018	$0
2019	$28.1 Million
2020	$78.6 Million
Fully Implemented	$101.1 Million

DOR's Corporate Tax Division will require form changes and programming support to implement the provisions of this section.

Oversight will, for fiscal note purposes, use the estimated amount provided by EPARC for the corporate tax rate reduction. Oversight will range the impact as $0 (triggers not met) to the estimated amount provided by EPARC. Additionally, Oversight will show one-time unknown costs for DOR to upgrade the Integrated Tax System.

§32.105 - §32.115 Neighborhood Assistance, Affordable Housing and Development Tax Credits

Officials at the **EPARC** assume this bill would implement a $5 million authorization cap on the Neighborhood Assistance Tax Credit Program beginning in FY 2019. FY 2016 redemptions in this program amounted to $10,318,971. FY 2016 authorizations in this program amounted to $13,553,852. 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 will have on Net General Revenue.

ASSUMPTION (continued)

This bill would implement a $7 million authorization cap on the Affordable Housing Tax Credit Program beginning in FY 2019. FY 2016 redemptions in this program amounted to $8,484,673. FY2016 authorizations in this program amounted to $10,988,370. 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 will have on Net General Revenue

This bill would repeal the Development Tax Credit Program. FY2016 redemptions in this program amounted to $893,519. Repealing this tax credit program would increase Net General Revenue by an estimated $893,519.

Oversight notes according to the Tax Credit Analysis submitted by the Department of Economic Development regarding this program, the Neighborhood Assistance tax credit program had the following activity;

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018 (projected)
Amount Authorized	$11,513,379	$15,974,536	$13,553,852	$16,000,000	$16,000,000
Amount Issued	$9,640,126	$11,435,785	$13,761,480	$13,600,000	$11,612,464
Amount Redeemed	$10,848,983	$8,230,286	$10,318,971	$11,424,000	$9,799,413

Oversight notes the Neighborhood Assistance tax credit has an $16 million annual cap. This proposal would lower the cap to $15 million annually. Oversight will not show a savings from this portion of the proposal as the new cap of $15 million is larger than the average amount issued over the last five years of $10,694,944.

Oversight notes according to the Tax Credit Analysis submitted by the Department of Economic Development and the Missouri Housing Development Commission regarding this program, the Affordable Housing tax credit program had the following activity;

	FY 2014	FY 2015	FY 2016	FY 2017 (projected)	FY 2018 (projected)
Amount Authorized	$8,197,923	$10,901,753	$10,988,370	$11,000,000	$11,000,000
Amount Issued	$4,844,279	$8,717,177	$13,171,092	$11,000,000	$11,000,000
Amount Redeemed	$5,620,750	$3,358,809	$8,484,673	$11,000,000	$11,000,000

Oversight notes the Affordable Housing tax credit has an $11 million annual cap. This proposal would lower the cap to $7 million annually. Oversight will reflect the amount of increased revenue to the State as $538,205 which is equal to the difference between the new cap of $7 million and the average amount issued over the last five years of $7,538,205.

ASSUMPTION (continued)

Oversight notes according to the Tax Credit Analysis submitted by the Department of Economic Development regarding this program, the Development tax credit program had the following activity;

	FY 2014	FY 2015	FY 2016	FY 2017 (projected)	FY 2018 (projected)
Amount Authorized	$650,000	$150,000	$0	$0	$0
Amount Issued	$2,522,400	$4,387,183	$999,959	$0	$0
Amount Redeemed	$3,301,501	$3,087,641	$893,519	$2,427,554	$2,136,238

Oversight notes that under current statutes, no new projects could be authorized after August 27, 2013 for the Development Tax Credit. This credit was replaced by the Missouri Works Program. This portion of the proposal repeals the credit. Since projects were already stopped, Oversight will not show a fiscal impact from this portion of the proposal.

§100.286 MDFB Infrastructure Tax Credit
Officials at the **EPARC** assume about the Development Reserve Contribution this bill would implement a $20 million authorization cap on the Development Reserve Contribution Credit Program. FY2016 redemptions in this program amounted to $0. FY 2016 authorizations in this program amounted to $0. 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 will have on Net General Revenue.

Export Finance Contribution: this bill would implement a $20 million authorization cap on the Export Finance Contribution Credit Program. FY2016 redemptions in this program amounted to $0. FY 2016 redemptions in this program amounted to $0. 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 will have on Net General Revenue.

Infrastructure Development Contribution: This bill would implement a $20 million authorization cap on the Infrastructure Development Contribution Credit Program. FY2 016 redemptions in this program amounted to $13,094,319. FY 2016 authorizations in this program amounted to $24,241,700. 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 will have on Net General Revenue.

Oversight notes this proposal reduce the cap on the MDFB Infrastructure tax credit. This credit has an annual cap of $10 million that can be increased to $25 million by agreement of the Director of Department of Economic Development, Director of Department of Revenue and the

ASSUMPTION (continued)

Commissioner of Administration. Currently they have agreed to raise the cap to $25 million. This proposal would reduce the agreed amount from $25 million annually to $20 million annually. Currently the five year issue average is approximately $14,033,503. Due to the current issue amount being lower than the new cap, Oversight will not show a savings from this provision.

§100.850 BUILD
Officials at the **EPARC** assume this bill 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. FY 2016 issuances in this program amounted to $9,040,816. 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 will have on Net General Revenue.

Oversight notes according to the Tax Credit Analysis submitted by the Department of Economic Development regarding this program, the BUILD tax credit program had the following activity;

	FY 2014	FY 2015	FY 2016	FY 2017 (projected)	FY 2018 (projected)
Amount Authorized	$18,504,992	$12,795,004	$30,376,756	$8,945,982	$20,558,917
Amount Issued	$6,318,996	$10,612,876	$9,040,816	$14,382,504	$8,657,563
Amount Redeemed	$8,533,926	$7,990,466	$8,389,892	$14,382,504	$8,304,761

Oversight notes this proposal would stop the issuance of this credit after January 1, 2018 (FY 2018). This credit has an annual cap of $25 million. Oversight will reflect the amount of increased revenue to the State equal to the average amount issued over the last four years of $9,005,376. Since it is possible that all the credit could be issued in FY 2018, Oversight will not show the savings until FY 2019.

§135.010 and §135.010 Senior Citizens Property Tax - Removed Renters
Officials at the **EPARC** assume this bill would repeal the renters' portion of the Senior Citizens Property Tax Credit Program. Our simulation uses 2015 income tax data that indicates renters' redeem $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.

Officials at the **DOR** assume the portion of the Property Tax Credit available to those individuals who rent is eliminated in Section 135.010 – Section 135.025.

DOR's Personal Tax Division assume they will need two Revenue Processing Technicians I ($27,185) for the additional processing requirements generated from the elimination of the Property Tax Credits for renters.

ASSUMPTION (continued)

Oversight notes according to the Tax Credit Analysis submitted by the Department of Revenue regarding this program, the Senior Citizen Property tax credit program had the following activity for both renters and owners;

	FY 2014	FY 2015	FY 2016	FY 2017 (projected)	FY 2018 (projected)
Amount Redeemed	$107,556,467	$104,810,266	$106,926,350	$107,000,000	$108,000,000

Oversight notes the Senior Citizen Property tax credit can be currently claimed by both home owners and renters. This proposal would remove renters from claiming the credit. Oversight will show the increased revenue to the state as the estimate provided by EPARC.

§135.352 Missouri Low-Income Housing Tax Credit
Officials at the **EPARC** assume this bill would implement a $160 million authorization cap on the Low-Income Housing Tax Credit Program for FY 2018, a $140 million authorization cap for FY 2019, a $120 million authorization cap for FY 2020, and a $90 million authorization cap for FY 2021. FY 2016 redemptions in this program amounted to $170,028,538. FY 2016 authorizations in this program amounted to $167,123,390. 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 will have on Net General Revenue.

Oversight notes according to the Tax Credit Analysis submitted by the Department of Economic Development and the Missouri Housing Development Commission regarding this program, the Missouri Low-Income Housing tax credit program had the following activity;

	FY 2014	FY 2015	FY 2016	FY 2017 (projected)	FY 2018 (projected)
Amount Authorized	$157,419,280	$156,736,570	$167,123,390	$205,000,000	$205,000,000
Amount Issued	$138,646,050	$124,988,930	$101,939,700	$140,000,000	$140,000,000
Amount Redeemed	$155,168,646	$140,292,351	$269,063,090	$205,000,000	$205,000,000

Oversight notes this proposal would reduce, over several years, the annual cap on this credit from its current $160 million to $90 million. Oversight will reflect the amount of increased revenue to the State each year equal to the difference between the new graduated cap of that year and the average amount issued over the last five years of $128,596,965.

§135.403 Community Development Corporation Tax Credit
Officials at the **EPARC** assume this bill would prohibit any new authorizations of credits for the Community Development Tax Credit Program in FY 2019. FY 2016 redemptions in this

ASSUMPTION (continued)

program amounted to $47. FY 2016 authorizations in this program amounted to $0. 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 will have on Net General Revenue.

Oversight notes the Community Development Corporation Tax Credit exhausted all available credits. Oversight will not show a fiscal impact from this portion of the proposal.

§135.484 Neighborhood Preservation Tax Credit
Officials at the **EPARC** assume this bill would implement a $1 million authorization cap on the Neighborhood Preservation Credit Program beginning in 2018. FY 2016 redemptions in this program amounted to $2,963,957. FY 2016 authorizations in this program amounted to $1,007,876. 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 will have on Net General Revenue.

Oversight notes according to the Tax Credit Analysis submitted by the Department of Economic Development regarding this program, the Neighborhood Preservation Tax Credit program had the following activity;

	FY 2014	FY 2015	FY 2016	FY 2017 (projected)	FY 2018 (projected)
Amount Authorized	$7,015,265	$8,210,050	$8,275,233	$10,000,000	$10,000,000
Amount Issued	$2,199,211	$3,090,703	$3,860,283	$3,500,000	$3,500,000
Amount Redeemed	$1,789,898	$1,766,763	$2,963,957	$3,000,000	$3,000,000

Oversight notes this proposal would reduce the annual cap on this credit from its current $16 million to $1 million. The current cap allows for $8 million for eligible areas and $8 million for qualifying areas. This proposal would restrict those areas to $500,000 each. Oversight will reflect the amount of increased revenue to the State as $1,484,924 which is equal to the difference between the new cap of $1 million and the average amount issued over the last five years of $2,484,924.

§135.825 Tax Report
DOR's Personal Tax Division assume they will require one Management Analysis Special I ($43,562) to handle the additional reporting requirements.

Oversight notes this portion of the proposal requires DOR to prepare a report for the General Assembly regarding certain tax credits.

ASSUMPTION (continued)

§253.550 Historic Preservation Tax Credit
Officials at the **EPARC** assume this bill would implement a $50 million authorization cap on the Historic Preservation Credit Program beginning in FY 2018. FY 2016 redemptions in this program amounted to $57,496,338. FY 2016 authorizations in this program amounted to $90,749,410. 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 will have on Net General Revenue.

Oversight notes according to the Tax Credit Analysis submitted by the Department of Economic Development regarding this program, the Historic Preservation tax credit program had the following activity:

	FY 2014	FY 2015	FY 2016	FY 2017 (projected)	FY 2018 (projected)
Amount Authorized	$146,635,429	$97,136,287	$90,749,410	$160,000,000	$160,000,000
Amount Issued	$41,791,636	$53,206,338	$59,590,351	$100,000,000	$100,000,000
Amount Redeemed	$59,829,671	$47,638,886	$57,496,338	$60,000,000	$60,000,000

Oversight notes this proposal would reduce the annual cap on this credit from its current $140 million to $50 million. Oversight will reflect the amount of increased revenue to the State as $16,271,394 which is equal to the difference between the new cap of $50 million and the average amount issued over the last five years of $66,271,394.

§447.708 Brownfield Demolition Tax Credit
Officials at the **EPARC** assume this bill would repeal the Brownfield Demolition tax credit. FY 2016 redemptions for this program amounted to $0. Repealing this tax credit program would not have any foreseeable impact on Net General Revenue.

Oversight notes the Brownfield Demolition Tax Credit has had no redemptions. Oversight will not show a fiscal impact from this portion of the proposal.

§135.766 Guarantee Fee
Officials at the **EPARC** assume this bill would repeal the Guarantee Fee tax credit. FY 2016 redemptions for this program amounted to $0. Repealing this tax credit program would not have any foreseeable impact on Net General Revenue.

Oversight notes the Qualified Research Tax Credit exhausted all available credits by January 1, 2005. Oversight will not show a fiscal impact from this portion of the proposal.

ASSUMPTION (continued)

§348.300 - §348.318 Seed Capitol
Officials at the **EPARC** assume this bill would repeal the Seed Capitol tax credit. FY 2016 redemptions for this program amounted to $0. Repealing this tax credit program would not have any foreseeable impact on Net General Revenue.

Oversight notes the Seed Capitol Tax Credit exhausted all available credits. Oversight will not show a fiscal impact from this portion of the proposal.

§620.1039 Qualified Research
Officials at the **EPARC** assume this bill would repeal the Qualified Research tax credit. FY 2016 redemptions for this program amounted to $0. Repealing this tax credit program would not have any foreseeable impact on Net General Revenue.

Oversight notes the Qualified Research Tax Credit exhausted all available credits by January 1, 2005. Oversight will not show a fiscal impact from this portion of the proposal.

Summary of Bill by EPARC
Figure 1 summarizes our impact estimates for the tax credit changes proposed in this bill. Figure 1 does not take into account the differing effective dates for these proposed changes and the fiscal year in which its impact will be felt. Note: When a tax credit program is repealed we assume its impact will be felt within the next fiscal year from when this bill is enacted, FY 2018.

Figure 1

Tax Credit Program	FY 2016 Redemptions	Proposed Redemption Cap or Authorization or Repeal	Increase in Revenue
Neighborhood Assistance	$10,318,971	$5 million cap	Unknown
Affordable Housing	$8,484,673	$7 million cap	Unknown
Development Tax	$893,519	Repeal	$893,519
Development Reserve	$0	$20 million cap	Unknown
Export Finance Fund	$0	$20 million cap	Unknown

Tax Credit Program	FY 2016 Redemptions	Proposed Redemption Cap or Authorization or Repeal	Increase in Revenue
Infrastructure Development	$13,094,319	$20 million cap	Unknown
BUILD	$8,389,872	None	Unknown
Senior Citizens Property Tax	$52,401,137	Repeal Renters' Portion	$52,401,137
Low Income Housing	$170,028,538	$160 m cap FY 2018 $140 m cap FY 2019 $120 m cap FY 2020 $90 m cap FY 2021	Unknown
Neighborhood Preservation	$2,963,957	No new authorizations	Unknown
Small Business Guaranty	$0	Repeal	$0
Historic Preservation	$57,496,338	$50 million cap	Unknown
Seed Capitol	$0	Repeal	$0
Brownfield Demolition	$0	Repeal	$0
Qualified Research	$0	Repeal	$0

Figure 2 incorporates only the portions of this bill that we are able to estimate. It does not include the total impact of this bill. It only shows the revenue impact from FY 2018 to FY 2021 and beyond for those portions of this bill we are able to estimate; the decrease in the corporate income tax rate, the repeal of the renters' portion of the Senior Citizens Property Tax Credit and the repeal of the Development, Small Business Guaranty, Seed Capital, Brownfield Demolition and Qualified Research Expense Tax Credit Programs.

ASSUMPTION (continued)

Figure 2

	FY 2018 Change in Revenue	FY 2019 Change in Revenue	FY 2020 Change in Revenue	FY 2021 Change in Revenue
Corporate Tax	$0	($53,952,980)	($97,115,364)	($97,115,364)
Development Tax	$893,519	$893,519	$893,519	$893,519
Senior Citizens Property Tax	$52,401,137	$52,401,137	$52,401,137	$52,401,137
Small Business Guaranty	$0	$0	$0	$0
Seed Capital	$0	$0	$0	$0
Brownfield Demolition	$0	$0	$0	$0
Qualified Research Expense	$0	$0	$0	$0
Total	$53,294,656	($658,324)	($43,820,708)	($43,820,708)

The Total line in Figure 2 simply summarizes the impact of portions of this bill that we are able to estimate. There are numerous portions of this bill that we are not able to estimate (see Figure 1). Figure 2 indicates the impact of reducing the Corporate Income Tax rate to 5% in 2019 will be a reduction in Net General Revenue of $53,952,980 in 2019 and the impact of reducing the Corporate Income Tax rate to 4% in 2020 will be reduction in Net General Revenue of $97,115,364 in 2020 and beyond. Repealing the renters' portion of the Senior Citizen Property Tax Credit will reduce Net General Revenue by $52,401,137 in FY2018 and beyond. Repealing the Development Tax Credit Programs will reduce Net General Revenue by $893,519 in FY2018 and beyond. Repealing the Small Business Guaranty, Seed Capital, Brownfield Demolition and Qualified Research Expense Tax Credit Programs will not have any foreseeable impact on Net General Revenue due to their inactivity.

We are unable to provide an impact on Net General Revenue for the reduction of authorizations for the many tax credit programs in this bill. Therefore, we are unable to give an estimate on the impact of this entire bill on Net General Revenue. However, we did provide impact estimates for several portions of this bill. Namely, the reduction in the Corporate Income Rate, the repeal of

ASSUMPTION (continued)

the renters' portion of the Senior Citizens Property Tax Credit program as well as the repeal of the Small Business Guaranty, Seed Capital, Brownfield Demolition and Qualified Research Expense Tax Credit Programs.

Reducing the Corporate Income Tax rate to 5% in 2019 will reduce in Net General Revenue by $53,952,980 in 2019 and reducing the Corporate Income Tax rate to 4% in 2020 will reduce Net General Revenue by $97,115,364 in 2020 and beyond. Repealing the renters' portion of the Senior Citizen Property Tax Credit will reduce Net General Revenue by $52,401,137 in FY2018 and beyond. Repealing the Development Tax Credit Programs will reduce Net General Revenue by $893,519 in FY2018 and beyond. Repealing the Small Business Guaranty, Seed Capital, Brownfield Demolition and Qualified Research Expense Tax Credit Programs will not have any foreseeable impact on Net General Revenue due to their inactivity.

Officials at the **DOR** assume this proposal makes changes to tax credits. The legislation eliminates or places caps on the authorization amounts for several tax credit programs. The following credits are eliminated beginning in Fiscal Year 2018/2019:

Program	Section	Year
Loan Guarantee Fee	135.766	2018
Qualified Research	620.1039	2018
Seed Capital	348.300 – 348.318	2018
Capital Tax Credit	135.403	2019

The following credits have a new cap placed on the amount of authorizations available:

Program	Section	Cap
Affordable Housing Assistance	32.105 – 32.115	$7 Million
BUILD	100.850	$25 Million
Historic Preservation	253.550	$50 Million
Low Income Housing	135.352	$160 - $90 Million
MDFB Infrastructure	100.286	$10 Million
Neighborhood Assistance	32.105 – 32.115	$15 Million
Neighborhood Preservation	135.484	$1 Million

The Department assumes the below increase in Total State Revenue from the changes to the above tax credit programs.

Year	Impact
2018	$56.3 Million

ASSUMPTION (continued)

2019	$66.8 Million
2020	$78.0 Million
Fully Implemented	$205.0 Million

The Collections & Tax Assistance Division will receive additional customer contacts and adjustment notices. The section requires two (2) Tax Collection Technicians I ($27,185) for every additional 15,000 contacts annually on the Delinquent and 15,000 contacts on the non-delinquent tax lines. Each technician requires CARES equipment and license.

Oversight notes this proposal would implement several tax credit cap changes to existing tax credit programs. Oversight assumes this proposal would change a limited number of computations on individual income tax returns and assumes the proposal would not have a significant impact on the number of returns filed. Oversight also notes a high percentage of income tax returns are prepared online, electronically, or by paid preparers, and assumes there would not be a significant number of additional errors resulting from the changes in this proposal.

Bill as a Whole
Officials at the **Joint Committee on Administrative Rules** assume there is no fiscal impact from this proposal.

Officials from the **Office of the Secretary of State (SOS)** state 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, 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 the 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 the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process.

Oversight did not receive a response from Department of Economic Development on this version of the proposal. Due to the substantial differences between the previous version and this version, Oversight did not include their previous version's response in this fiscal note.

FISCAL IMPACT - State Government	FY 2018 (10 Mo.)	FY 2019	FY 2020	Fully Implemented (FY 2021)
GENERAL REVENUE FUND				
Increased Revenue - Changes in tax credits				
Affordable Housing §32.110 reduced cap	$538,205	$538,205	$538,205	$538,205
Build §100.850 stopped credit	$0	$9,005,376	$9,005,376	$9,005,376
Senior Citizens Property tax §135.025 removed renters eligibility	$52,401,137	$52,401,137	$52,401,137	$52,401,137
Low-Income Housing §135.352 reduced cap	$0	$0	$8,596,965	$38,596,965
Neighborhood Preservation §135.484 reduced cap	$1,484,924	$1,484,924	$1,484,924	$1,484,924
Historic Preservation §253.550 reduced cap	$16,271,394	$16,271,394	$16,271,394	$16,271,394
Total Increase Revenue	$70,695,660	$79,701,036	$88,298,001	$118,298,001
Revenue Reduction - change in corporate tax rate §143.071	$0	$0 or ($53,952,980)	$0 or (Up to $97,115,364)	$0 or (Up to $97,115,364)

FISCAL IMPACT - State Government (continued)	FY 2018 (10 Mo.)	FY 2019	FY 2020	Fully Implemented (FY 2021)
GENERAL REVENUE FUND (continued)				
Cost - DOR				
Personal Service	($36,302)	($43,998)	($44,438)	($44,882)
Fringe Benefits	($19,401)	($23,411)	($23,542)	($23,674)
Equipment & Exp	($8,095)	($1,167)	($1,197)	($1,227)
Computer upgrades	(Unknown)	$0	$0	$0
Total Cost FTE -	(More than $63,798)	($68,576)	($69,177)	($69,783)
Total FTE Change	1 FTE	1 FTE	1 FTE	1 FTE
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**Less than $70,631,862**	**$25,679,480 or $79,632,460**	**($8,886,540) or $88,228,824**	**$21,112,854 or $118,228,218**
Estimated Net FTE Change on General Revenue Fund	1 FTE	1 FTE	1 FTE	1 FTE

FISCAL IMPACT - Local Government	FY 2018 (10 Mo.)	FY 2019	FY 2020	Fully Implemented (FY 2021)
	$0	**$0**	**$0**	**$0**

FISCAL IMPACT - Small Business

Small businesses that realize a smaller corporate income tax liability would benefit from this proposal. Small businesses that utilize the tax credits impacted by this proposal could be negatively impacted by this proposal.

FISCAL DESCRIPTION

This proposal modifies several tax credits and changes the corporate tax rate.

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
Economic & Policy Analysis Research Center
Joint Committee on Administrative Rules
Office of Administration
  Division of Budget and Planning
Office of the Secretary of State

Mickey Wilson, CPA	Ross Strope
Director	Assistant Director
February 20, 2017	February 20, 2017

JH:LR:OD