

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0478S.01I
Bill No.: SB 110
Subject: Tax Credits
Type: Original
Date: March 1, 2021

Bill Summary: This proposal would prohibit tax credits for the construction or rehabilitation of residences located in certain distressed areas after August 28, 2021.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
General Revenue Fund	\$0	\$4,877,773 to \$16,000,000	\$4,877,773 to \$16,000,000
Total Estimated Net Effect on General Revenue	\$0	\$4,877,773 to \$16,000,000	\$4,877,773 to \$16,000,000

*Oversight has ranged the fiscal impact (savings) from prohibiting tax credit issuances under the Neighborhood Preservation Act from the three (3) year issuance average (\$4,877,773) to the annual cap of \$16 million.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
Total Estimated Net Effect on FTE	0	0	0

- ☐ Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.
- ☒ Estimated Net Effect (savings or increased revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration – Budget & Planning Division (B&P)** state this proposed legislation would eliminate the Neighborhood Preservation Tax Credit for any projects commenced on or after August 28, 2021. The cap on the program is \$16 million (\$8 million for eligible areas and \$8 million for qualifying areas, as defined by law).

The proposed legislation could result in a savings to Total State Revenue (TSR) by an amount up to \$16 million. However, B&P notes that, based on the tax credit analysis form provided by DED, the three (3) year average authorization amount totals \$8,185,361 and average redemption amount is \$3,252,986. Savings could therefore be between \$3,252,986 and \$16,000,000 annually.

Officials from the **Missouri Department of Economic Development (DED)** state this proposed legislation eliminates the Neighborhood Preservation Act Program. No tax credits should be issued for project commenced on or after August 28, 2021; however, credits may be issued for tax credits authorized on or before August 28, 2021.

The program has a total combined cap of \$16 million; \$8 million for Qualifying Areas and \$8 million for Eligible Areas. DED exhausts the \$8 million cap annually for the Qualifying Areas but the \$8M cap for the Eligible Areas is not met. Average annual issuances for the program are \$4 million per year.

This proposed legislation would cause a cost savings to General Revenue (GR) of \$2,800,000 from Fiscal Year 2022 – 2024. DED notes there is still a Cost to Benefit of \$1.00 to \$0.20. With this in mind, the State of Missouri will be losing some of the economic benefit on the savings to the program. With the Cost to Benefit ratio added in, the final total savings would be **\$2,240,000**. Below is a breakdown per fiscal year and a formula for how savings were determined:

- For Fiscal Year 2021 – the State of Missouri will still be able to issue credits that were authorized or where the project commenced prior to August 28, 2021. \$0 savings for Fiscal Year 2022.
- For Fiscal Year 2023 – Based on prior year's authorizations, roughly 20% of the credits were issued in the second year from when the project was originally authorized. Average issuances per year are \$4 million; \$4 million x 20% = \$800,000. \$800,000 savings x .2 Cost to Benefit Ratio = \$160,000. \$800,000 - \$160,000 = \$640,000 savings for Fiscal Year 2023.

- For Fiscal Year 2024 – Based on prior year’s authorizations, roughly 50% of the credits were issued in the third year from when the project was originally authorized. Average issuance per year are \$4 million; \$4 million x 50% = \$2 million. \$2,000,000 x .2 Cost to Benefit ratio = \$400,000. \$2,000,000 - \$400,000 = \$1,600,000 savings for Fiscal Year 2024.
- Total: \$640,000 + \$1,600,000 = \$2,240,000

Oversight notes most of Missouri’s tax credits provide a return or benefit on the tax credit investment. However, Oversight assumes this to be an indirect impact and will report the fiscal impact to the State of Missouri ranging from the three year average amount of Neighborhood Preservation Tax Credit(s) issued to the cumulative tax credit cap of the tax credit program.

Officials from the **Missouri Department of Revenue (DOR)** state this proposed legislation would prohibit the authorization of the tax credit authorized under Sections 135.475 and 134.487 after August 28, 2021. These credits are the Rebuilding Communities and the Neighborhood Preservation Tax Credits. Credits previously issued would be allowed to be redeemed but no additional credits can be issued.

The Rebuilding Communities’ Tax Credit program expired August 27, 2013 and no additional tax credits have been issued. DOR assumes no fiscal impact from this portion of the proposal.

The Neighborhood Preservation Tax Credit has an annual cap of \$16 million. This program has a five (5) year carry forward and three (3) year carry back on all issued credits. The amount of the credits authorized, issued and redeemed in the last few years is listed below:

Year	Authorized	Issued	Total Redeemed
FY 2020	\$8,094,250.00	\$5,879,298.43	\$3,658,595.10
FY 2019	\$8,171,250.00	\$4,830,622.10	\$2,807,206.80
FY 2018	\$8,290,583.75	\$3,923,399.76	\$3,293,154.79
FY 2017	\$8,121,865.00	\$2,538,319.73	\$3,147,042.54
FY 2016	\$1,007,875.82	\$11,197,639.74	\$2,963,956.70
FY 2015	\$8,210,050.00	\$3,090,703.26	\$1,766,762.55
FY 2014	\$7,015,264.52	\$2,199,211.15	\$1,789,898.44

FY 2013	\$9,352,479.69	\$2,305,114.68	\$1,232,213.95
FY 2012	\$9,145,201.93	\$969,306.53	\$2,159,654.10
TOTALS	\$67,408,820.71	\$36,933,615.38	\$22,818,484.97

DOR assumes this could result in a savings to the state of the \$16 million annually, once the outstanding credits are redeemed. It is estimated that would not occur until outside the fiscal note period.

Officials from the **Missouri Department of Commerce and Insurance (DCI)** state this proposed legislation could result in a potential unknown positive fiscal impact of premium tax revenues (up to the tax credit limit established in the bill) as a result of the changes to the sunset of construction or rehabilitation tax credit. Premium tax revenue is split 50/50 between General Revenue and County Foreign Insurance Fund except for domestic Stock Property and Casualty Companies who pay premium tax to the County Stock Fund. The County Foreign Insurance Fund is later distributed to school districts throughout the state. County Stock Funds are later distributed to the school district and county treasurer of the county in which the principal office of the insurer is located. It is unknown how each of these funds may be impacted by tax credits each year and which insurers will qualify for the tax credit impacted.

Officials from the **University of Missouri's Economic & Policy Analysis Research Center (EPARC)** state this proposed legislation would end the Neighborhood Preservation Tax Credit (RCN) for projects on or after August 28, 2021.

The Neighborhood Preservation Tax Credit has a five (5) year carry-forward, meaning that any credit issued can be redeemed in any of the next five (5) tax years. First, EPARC forecasted credit redemptions for Fiscal Year 2022 through Fiscal Year 2026 as though the credit program will **not** be ending. Then EPARC subtracted the credit ending alternative, where one-fifth of the Fiscal Year 2021 redemption level was subtracted every year until redemptions equal zero (\$0). The following table shows EPARC's calculations.

Fiscal Year	RCN Redemption Forecast	RCN Redemption Decreasing By 20% Annually	Increase In Net General Revenue
2021	\$3,548,163	\$3,548,163	\$0
2022	\$3,758,012	\$2,838,531	\$919,481
2023	\$3,967,862	\$2,128,898	\$1,838,964
2024	\$4,177,711	\$1,419,265	\$2,758,446
2025	\$4,387,560	\$709,633	\$3,677,927
2026	\$4,597,410	\$0	\$4,597,410

In Fiscal Year 2022 the difference between the RCN forecast and the 20% reduction in the Fiscal Year 2021 redemption level creates an increase in Net General Revenue of \$919,482. In Fiscal

Year 2023 the difference between the RCN forecast and the 40% reduction in the Fiscal Year 2021 redemption level creates an increase in Net General Revenue of \$1,838,964. In Fiscal Year 2024 the difference between the RCN forecast and the 60% reduction in the Fiscal Year 2021 redemption level creates an increase in Net General Revenue of \$2,758,446. In Fiscal Year 2025 the difference between the RCN forecast and the 80% reduction in the Fiscal Year 2021 redemption level creates an increase in Net General Revenue of \$3,677,928. In Fiscal Year 2026 the difference between the RCN forecast and the 100% reduction in the Fiscal Year 2021 redemption level creates an increase in Net General Revenue of \$4,597,410.

Therefore, EPARC estimates this proposed legislation would increase Net General Revenue by \$919,482 in Fiscal Year 2022, by \$1,838,964 in Fiscal Year 2023, by \$2,758,446 in Fiscal Year 2024, by \$3,677,928 in Fiscal Year 2025, and by \$4,597,410 in Fiscal Year 2026 and every year beyond.

Oversight notes the actual and true fiscal impact created by state tax credits occur when taxpayer's file their annual tax filings claiming the tax credits; when redemptions of the tax credits occur. However, the actual debt owed by the State of Missouri to Missouri taxpayers is created when tax credits are issued. Oversight notes the amount of tax credits issued and the amount of tax credits redeemed each year vary.

For purposes of this fiscal note, **Oversight** will report the fiscal impact to the State of Missouri as a result of the the reduced debt owed to Missouri taxpayers ranging from the three (3) year average amount of Neighborhood Preservation Tax Credit(s) issued to the cumulative tax credit cap of the tax credit program. Oversight notes, though, that tax credit redemptions for the Neighborhood Preservation Tax Credit are likely continue for a maximum of five (5) years after the issuance of tax credits for projects commenced before August 28, 2021. This could result in the actual and true fiscal impact of this proposed legislation to result in future fiscal years, rather than the years reported in this fiscal note.

Oversight notes this proposed legislation would eliminate the Neighborhood Preservation Tax Credit for any projects commenced on or after August 28, 2021 (Fiscal Year 2022).

Oversight notes, per the most recent Tax Credit Analysis received from the Missouri Department of Economic Development, the Neighborhood Preservation Tax Credit recognized the following activity:

Fiscal Year	2018	2019	2020	2021 (Year To Date)	2022 (Budget Year)
Certificates Issued (#)	100	122	95	7	110
Projects/Participants (#)	100	122	95	7	110
Amount Authorized	\$8,290,584	\$8,171,250	\$8,094,250	\$0	\$8,200,000
Amount Issued	\$3,923,400	\$4,830,622	\$5,879,298	\$533,403	\$5,500,000
Amount Redeemed	\$3,293,155	\$2,807,207	\$3,658,595	-	\$3,300,000

Oversight notes the three (3) year average (Fiscal Year(s) 2018 – 2020) amount of Neighborhood Preservation Tax Credits issued equals \$4,877,773.

Oversight notes this proposed legislation would eliminate future authorizations of the Neighborhood Preservation Tax Credit beginning August 28, 2021. Oversight notes this suggests that authorizations would not occur for four (4) months of Tax Year 2021. Oversight notes taxpayers would not file their Tax Year 2021 tax returns until after January 1, 2022 (Fiscal Year 2022). However, for simplicity, Oversight will assume all credits would be authorized prior to August 28, 2021. Therefore, Oversight assumes Tax Year 2022 would be the first tax year to recognize a result of this proposed legislation. Tax Year 2022 tax returns would not be filed until after January 1, 2023 (Fiscal Year 2023).

Therefore, for purposes of this fiscal note, Oversight will report a revenue gain to GR equal to \$4,877,773 to \$16,000,000 (tax credit program cap) beginning in Fiscal Year 2023.

<u>FISCAL IMPACT – State Government</u>	FY 2022 (10 Mo.)	FY 2023	FY 2024
GENERAL REVENUE FUND			
<u>Revenue Gain- Section 135.481 – Elimination of Neighborhood Preservation Tax Credit Authorizations Beginning August 28, 2021</u>	\$0	<u>\$4,877,773 to \$16,000,000</u>	<u>\$4,877,773 to \$16,000,000</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	\$0	<u>\$4,877,773 to \$16,000,000</u>	<u>\$4,877,773 to \$16,000,000</u>

<u>FISCAL IMPACT – Local Government</u>	FY 2022 (10 Mo.)	FY 2023	FY 2024

	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
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FISCAL IMPACT – Small Business

This proposed legislation would negatively impact any small business that would have otherwise qualified for the Neighborhood Preservation Tax Credit for projects commenced after August 28, 2021 had the tax credit not been eliminated.

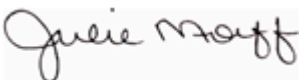
FISCAL DESCRIPTION

Current law authorizes a tax credit for the construction or rehabilitation of residences located in certain distressed areas. This act provides that no such tax credits shall be authorized for projects that commence on or after August 28, 2021.

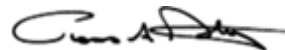
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of Administration – Budget & Planning Division
Missouri Department of Commerce and Insurance
Missouri Department of Economic Development
Missouri Department of Revenue
University of Missouri’s Economic & Policy Analysis Research Center



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March 1, 2021



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