

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0930S.02I
Bill No.: SB 155
Subject: Taxation and Revenue - Income; Tax Credits
Type: Original
Date: February 8, 2021

Bill Summary: Modifies provisions relating to tax credits for contributions to certain benevolent organizations.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2022	FY 2023	FY 2024	Fully Implemented (FY 2026)
General Revenue*	(\$73,238)	Could significantly exceed (\$1,950,416)	Could significantly exceed (\$1,931,240)	Could significantly exceed (\$4,454,007)
Total Estimated Net Effect on General Revenue	(\$73,238)	Could significantly exceed (\$1,950,416)	Could significantly exceed (\$1,931,240)	Could significantly exceed (\$4,454,007)

*Oversight notes these amounts reflect current contributions as earning the higher tax credit percentage (from 50% to 70%). The amounts DO NOT reflect any increase in participation that may result from expanding the program to include other entities as well as the elimination of the annual program caps – for these expansions, Oversight used “Could significantly exceed”. The Fully Implemented year (FY 2026) reflects the removal of the sunset date for Section 135.600 (Contributions to Maternity Homes Tax Credit).

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2022	FY 2023	FY 2024	Fully Implemented (FY 2026)
Total Estimated Net Effect on Other State Funds	\$0	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2022	FY 2023	FY 2024	Fully Implemented (FY 2026)
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)				
FUND AFFECTED	FY 2022	FY 2023	FY 2024	Fully Implemented (FY 2026)
General Revenue – DOR	0 FTE	2 FTE	2 FTE	2 FTE
General Revenue – DSS	1 FTE	1 FTE	1 FTE	1 FTE
Total Estimated Net Effect on FTE	1 FTE	3 FTE	3 FTE	3 FTE

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

ESTIMATED NET EFFECT ON LOCAL FUNDS				
FUND AFFECTED	FY 2022	FY 2023	FY 2024	Fully Implemented (FY 2026)
Local Government	\$0	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Section 135.550 – Domestic Violence Tax Credit

Officials from the **Office of Administration – Budget & Planning Division (B&P)** state this section would expand the definition of a “Domestic Violence Shelter”. This provision would also increase the contribution percentage for the tax credit and remove the annual redemption cap beginning in Fiscal Year 2023.

Starting in Fiscal Year 2023, this section increases the amount of the Shelter for Victims of Domestic Violence Tax Credit from 50% of the contribution to 70% of the contribution as well as removes the cap on the credit. Increasing the percentage amount could encourage additional taxpayers to participate in the program. At 50%, the current \$2 million cap would generate \$4 million in contributions.

However, B&P notes that this section removes the annual \$2 million redemption cap. Therefore, B&P will show an impact of could exceed \$800,000 annually starting in Fiscal Year 2023.

Increasing the allowable contribution rate to 70% could cost the state \$2,800,000 (\$4 million x 70%) in credits. This could result in an additional \$800,000 (\$2,800,000 - \$2,000,000) in credits per year.

B&P estimates that this provision may reduce Total State Revenue (TSR) and General Revenue (GR) by an amount that could exceed \$800,000 annually beginning in Fiscal Year 2023.

Officials from the **Missouri Department of Revenue (DOR)** state, currently, a taxpayer shall be allowed to claim a tax credit against the taxpayer's state tax liability, in an amount equal to fifty percent (50%) of the amount such taxpayer contributed to a shelter for victims of domestic violence. No taxpayer is allowed to claim more than \$50,000 and the total cumulative cap on the program is two million dollars (\$2,000,000) annually. DOR notes the current tax credit program has issued the following amount of credits:

Year	Issued
FY 2020	\$1,858,165.23
FY 2019	\$1,752,800.86
FY 2018	\$1,881,995.47
FY 2017	\$1,611,058.21
FY 2016	\$1,892,974.11
FY 2015	\$1,426,180.09
FY 2014	\$1,256,761.49

This section expands the existing program to allow rape crisis centers and nonprofit organizations established and operating for the purpose of supporting a shelter for victims of domestic violence that are operated by the state or a political subdivision to also receive this credit. This could potentially expand the number of taxpayers that could be eligible to claim the tax credit.

Oversight assumes the inclusion of rape crisis centers and non-profit organizations established and operating for the purpose of supporting a shelter for victims of domestic violence and are operated by the state or a local political subdivision in the definition of “shelter for victims of domestic violence” to receive tax credits, as stated by DOR, is to the effect that such entities would be allocated a specific amount of tax credits permitted to be awarded to the contributors to such entities; not to the effect that such entities would claim the tax credits themselves.

DOR states this section increases the percent of the contribution from 50% to 70% for the amount of the tax credit. Additionally, it removes the annual cap starting July 1, 2022 (Fiscal Year 2023). All of these changes are expected to encourage more taxpayers to contribute and claim the tax credit. The five (5) year average of the program has been \$1,599,397.78.

Assuming the \$1,599,397.78 had been half of the domestic violence shelters contributions, then increasing the tax credit percent to seventy percent (70%) would have resulted in \$2,239,157 in tax credits; an increase of \$639,759.

The increased percent of the credit could result in additional contributions being made to domestic violence shelters, but DOR does not have any information as to how many more contributions would be made.

Additionally, the expansion of the credit to the other organizations may increase the number of credits claimed but DOR is unable to calculate any increase.

DOR will assume this section will increase the loss to GR by an amount greater than \$639,759.

Oversight notes, according to the Tax Credit Analysis submitted to Oversight by the Missouri Department of Social Services, regarding this tax credit program, the Shelter for Victims of Domestic Violence Tax Credit Program had the following activity as it is currently administered:

Shelter for Victims of Domestic Violence Tax Credit	Fiscal Year 2018	Fiscal Year 2019	Fiscal Year 2020	Fiscal Year 2021 (Year to Date)	Fiscal Year 2022 (Budget Year)
Certificates Issued (#)	2,403	2,035	1,920	-	2,000
Amount Authorized	\$1,871,245	\$1,752,801	\$1,858,165	-	\$1,800,000
Amount Issued	\$1,871,245	\$1,752,801	\$1,858,165	-	\$1,800,000
Amount Redeemed	\$1,510,572	\$883,099	\$1,434,287	-	\$1,400,000

Oversight notes this section adds the definition of “Rape Crisis Center” which is defined as “a community-based non-profit rape crisis center, as defined in Section 455.033, located in this state and that provides twenty-four (24) hour core services of hospital advocacy and crisis hotline support to survivors of rape and sexual assault”.

Oversight notes this proposed legislation expands the definition of “Shelter for Victims of Domestic Violence” to include “a non-profit organization established and operating exclusively for the purpose of supporting a shelter for victims of domestic violence operated by the state or one of its political subdivisions”.

Oversight notes, under this proposed legislation, individuals who contribute to the newly defined Rape Crisis Center(s) and/or to the newly added non-profit organizations established and operating exclusively for the purpose of supporting a shelter for victims of domestic violence operated by the state or one of its political subdivisions would be eligible to receive a tax credit for such contribution.

Oversight assumes an increase in the number of entities that are permitted to award these tax credits could increase the participation in the tax credit program.

Oversight notes, currently, any individual making a qualifying contribution would receive a tax credit equal to fifty percent (50%) of the qualifying contribution made. This proposed legislation increases the amount of tax credit individuals would receive from fifty percent (50%) of the contribution to seventy percent (70%) of the contribution beginning on and after July 1, 2022 (Fiscal Year 2023).

Oversight notes, currently, the cumulative amount of Shelter for Victims of Domestic Violence Tax Credits which may be claimed by all taxpayers shall not exceed \$2,000,000 in any given fiscal year. This proposed legislation eliminates the existing cap for all fiscal years beginning on and after July 1, 2022 (Fiscal Year 2023).

Oversight notes, the three (3) year average amount of Shelter for Victims of Domestic Violence Tax Credits issued totals \$1,827,404.

Oversight estimates, as these tax credits would have been awarded at fifty percent (50%) of the total contribution, the total amount of contributions would equal \$3,654,807 ($\$1,827,404 \times 2$).

Provided the participation in the program remained the same, tax credits awarded at seventy percent (70%) suggests a total of \$2,558,365 would be issued ($\$3,654,807 \times 70\%$); a difference of \$730,961.

Oversight notes the Missouri Department of Social Services estimates \$1,800,000 will be issued in Fiscal Year 2022. Oversight estimates, then, the total amount of contributions would equal \$3,600,000 ($\$1,800,000 \times 2$).

Provided the participation in the program remained the same, tax credits awarded at seventy percent (70%) suggests a total of \$2,520,000 would be issued ($\$3,600,000 \times 70\%$); a difference of \$720,000.

Oversight assumes participation in the tax credit program could increase provided the number/type of entities that can award these tax credits increases. Oversight assume participation in the program could increase provided the percent used to calculate a taxpayer's tax credit is increased. Oversight further assumes participation in the tax credit program could increase provided the cumulative cap is eliminated.

Oversight notes that it is difficult to estimate the impact of a tax credit program with no cap on the amount of tax credits that can be authorized/issued/redeemed.

However, Oversight notes, based on the most recent Tax Credit Analysis, tax credit claims have not reached the cap of \$2 million.

Oversight notes the modifications to this section would become effective July 1, 2022 (Fiscal Year 2023)

For purposes of this fiscal note, Oversight will report a revenue reduction to GR equal to an amount that "Could significantly exceed (as a result of the inclusion of rape crisis centers and additional non-profit organizations and the elimination of the annual cap) \$720,000" (as a result of the increase in the percent used to calculate the tax credit) beginning in Fiscal Year 2023.

Oversight notes this section suggests that individuals who contributed to a shelter for victims of domestic violence or a rape crisis center for all fiscal years ending on or before June 30, 2022 shall be allowed to claim a tax credit against the taxpayer's state tax liability.

Oversight assumes this may permit retroactivity within the tax credit program; individuals who have contributed in the **past** to rape crisis centers and non-profit organizations established and operating exclusively for the purpose of supporting a shelter for victims of domestic violence,

operated by the state or one of its political subdivisions may qualify for this tax credit so long as such contributions and tax credit claims occur within the current statute of limitations.

Therefore, **Oversight** notes the estimated reduction to GR could be significantly larger than anticipated within the first several years after the effective date of this proposed legislation if individuals who, in the past, made contribution(s) to such entities and now claim a tax credit.

Section 135.600 – Maternity Home Tax Credit

Officials from **B&P** state this section would increase the contribution percentage for the tax credit and remove the annual redemption cap beginning with Fiscal Year 2023.

Starting in Fiscal Year 2023, this section increases the amount of the Maternity Home Tax Credit from 50% of the contribution to 70% of the contribution as well as removing the cap on the credit. Increasing the percentage amount could encourage additional taxpayers to participate in the program. At 50%, the current \$3.5 million cap would generate \$7 million in contributions.

However, B&P notes that this section removes the annual \$3.5 million redemption cap. Therefore, B&P will show an impact of could exceed \$1.4 million annually starting in Fiscal Year 2023.

Increasing the allowable contribution rate to 70% could cost the state \$4,900,000 (\$7 million x 70%) in credits. This could result in an additional \$1,400,000 (\$4,900,000 - \$3,500,000) in credits per year.

B&P estimates that this provision may reduce TSR and GR by an amount that could exceed \$1,400,000 annually beginning in Fiscal Year 2023.

Officials from **DOR** state, currently, a taxpayer shall be allowed to claim a tax credit against the taxpayer's state tax liability, in an amount equal to fifty percent (50%) of the amount such taxpayer contributed to a maternity home. No taxpayer is allowed to claim more than \$50,000 and the total cumulative cap on the program is three million five hundred thousand dollars (\$3,500,000) annually.

DOR notes the current tax credit program has issued the following amount of credits:

Year	Issued
FY 2020	\$2,678,033.86
FY 2019	\$2,390,514.11
FY 2018	\$2,499,951.44
FY 2017	\$2,482,713.51
FY 2016	\$2,499,405.47
FY 2015	\$2,104,022.19
FY 2014	\$1,810,789.52

This section increases the percent of the contribution from 50% to 70% for the amount of the tax credit. Additionally, it removes the annual cap starting July 1, 2022 (Fiscal Year 2023). These changes are expected to encourage more taxpayers to contribute and claim the tax credit. The five (5) year average of the program has been \$2,510,123.68.

Assuming the \$2,510,123.68 had been half of the domestic violence shelters contributions, then increasing the tax credit percent to seventy percent (70%) would have resulted in \$3,514,173.15 in tax credits: an increase of \$1,004,050.

The increased percent of the credit could result in additional contributions being made to domestic violence shelters, but DOR does not have any information as to how many more contributions would be made.

DOR will assume this will increase the loss to GR greater than \$1,004,050.

Oversight notes, according to the Tax Credit Analysis submitted to Oversight by the Missouri Department of Social Services, regarding this tax credit program, the Maternity Home Tax Credit Program had the following activity as it is currently administered:

Maternity Home Tax Credit	Fiscal Year 2018	Fiscal Year 2019	Fiscal Year 2020	Fiscal Year 2021 (Year to Date)	Fiscal Year 2022 (Budget Year)
Certificates Issued (#)	1,907	\$2,036	\$1,806	-	2,000
Amount Authorized	\$2,499,753	\$2,390,514	\$2,678,034	-	\$2,600,000
Amount Issued	\$2,499,753	\$2,390,514	\$2,678,034	-	\$2,600,000
Amount Redeemed	\$2,098,721	\$1,538,393	\$2,263,523	-	\$2,200,000

Oversight notes, currently, any individual making a qualifying contribution would receive a tax credit equal to fifty percent (50%) of the qualifying contribution made. This proposed legislation increases the amount of tax credit individuals would receive from fifty percent (50%) of the contribution to seventy percent (70%) of the contribution for all fiscal years beginning on or after July 1, 2022 (Fiscal Year 2023).

Oversight notes, currently, the cumulative amount of Maternity Home Tax Credits which may be claimed by all taxpayers shall not exceed \$3,500,000 in any given fiscal year. This proposed legislation eliminates the existing cap for all fiscal years beginning on or after July 1, 2022 (Fiscal Year 2023).

Oversight notes, the three (3) year average amount of Maternity Home Tax Credits issued totals \$2,522,767.

Oversight estimates, as these tax credits would have been awarded at fifty percent (50%) of the total contribution, the total amount of contributions would equal \$5,045,534 ($\$2,522,767 \times 2$)

Provided the participation in the program remained the same, tax credits awarded at seventy percent (70%) suggests a total of \$3,531,874 would be issued ($\$5,045,534 \times 70\%$); a difference of \$1,009,107.

Oversight notes the Missouri Department of Social Services estimates \$2,600,000 will be issued in Fiscal Year 2022. Oversight estimates, then, the total amount of contributions would equal \$5,200,000 ($\$2,600,000 \times 2$).

Provided the participation in the program remained the same, tax credits awarded at seventy percent (70%) suggest a total of \$3,640,000 would be issued ($\$5,200,000 \times 70\%$); a difference of \$1,040,000.

Oversight assume participation in the program could increase provided the percent used to calculate a taxpayer's tax credit is increased. Oversight further assumes participation in the tax credit program could increase provided the cumulative cap is eliminated.

Oversight notes that it is difficult to estimate the impact of a tax credit program with no cap on the amount of tax credits that can be authorized/issued/redeemed.

However, Oversight notes, based on the most recent Tax Credit Analysis, tax credit claims have not reached the cap of \$3.5 million.

Oversight notes the modifications to this section would become effective July 1, 2022 (Fiscal Year 2023)

For purposes of this fiscal note, Oversight will report a revenue reduction to GR equal to an amount that "Could significantly exceed (as a result of the elimination of the cap) \$1,040,000"

(as a result of the increase in the percent used to calculate the tax credit) beginning in Fiscal Year 2023.

Oversight notes this proposal also removes the sunset date in Section 135.660. Oversight reflects this change as a cost to the state, since removing this sunset will allow the tax credit program to continue beyond the current expiration date. Therefore, Oversight will reflect a loss to General Revenue starting in FY 2026 (current sunset date of 12-31-2024) of the latest three year average of tax credit issuances (\$2,522,767). For simplicity, Oversight will not reflect a change in the cost of FTE from FY 2024 to FY 2026.

Legislation as a Whole

DOR anticipates the need for: one (1) FTE Associate Customer Service Representative (\$24,360 annual salary/FTE) for every 6,000 tax credits redeemed, one (1) FTE Associate Customer Service Representative for every 4,000 apportioned credits redeemed, one (1) FTE Associate Customer Service Representative for every 4,000 tax credit transfers with CISCO phones and licenses and one (1) FTE Associate Customer Service Representative for every 7,600 errors/correspondence generated as a result of the expansion of the two tax credit programs. DOR also anticipates the need additional expense for a one-time form and system update. DOR has applied these costs beginning in Fiscal Year 2023.

Oversight notes neither the Shelters for Victims of Domestic Violence Tax Credit or the Maternity Home Tax Credit are apportioned tax credits. Furthermore, neither Shelters for Victims of Domestic Violence Tax Credit or the Maternity Home Tax Credit may be transferred.

Therefore, for purposes of this fiscal note, **Oversight** will report DOR's administrative impact for the two (2) FTE Associate Customer Service Representatives for the tax credit redemptions and for the errors/correspondence generated as well as the cost for a one-time form and system update.

Officials from the **Missouri Department of Social Services (DSS)** state one (1) FTE Administrative Support Professional (\$42,654 annual salary) will be needed to process the additional tax credit requests as a result of the elimination of the cap on the Shelter for Victims of Domestic Violence Tax Credit and the Maternity Home Tax Credit.

<u>FISCAL IMPACT – State Government</u>	FY 2022 (10 Mo.)	FY 2023	FY 2024	Fully Implemented (FY 2026)
GENERAL REVENUE FUND				
<u>Revenue Reduction – § 135.550 – modifications to Shelter for Victims of Domestic Violence Tax Credit p. 6</u>	\$0	Could significantly exceed (\$720,000)	Could significantly exceed (\$720,000)	Could significantly exceed (\$720,000)
<u>Revenue Reduction – Section 135.600 – Modifications to Maternity Home Tax Credit p. 10</u>	\$0	Could significantly exceed (\$1,040,000)	Could significantly exceed (\$1,040,000)	Could significantly exceed (\$1,040,000)
<u>Revenue Reduction - §135.600 – removal of sunset date</u>	\$0	\$0	\$0	(\$2,522,767)
<u>Cost – DOR – Section(s) 135.550 & 135.600 p. 10</u>				
Personnel Services	\$0	(\$49,207)	(\$49,699)	(\$49,699)
Fringe Benefits	\$0	(\$40,487)	(\$40,653)	(\$40,653)
Equipment & Expense	\$0	(\$21,606)	(\$1,007)	(\$1,007)
Total Cost	\$0	(\$111,300)	(\$91,359)	(\$91,359)
FTE Change – DOR	0 FTE	2 FTE	2 FTE	2 FTE
<u>Cost – DSS – Section(s) 135.550 & 135.600 p. 10</u>				
Personnel Services	(\$35,545)	(\$43,081)	(\$43,511)	(\$43,511)
Fringe Benefits	(\$23,479)	(\$28,316)	(\$28,459)	(\$28,459)
Equipment & Expense	(\$14,304)	(\$7,719)	(\$7,911)	(\$7,911)
Total Cost	(\$73,328)	(\$79,116)	(\$79,881)	(\$79,881)
FTE Change – DSS	1 FTE	1 FTE	1 FTE	1 FTE
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$73,238)</u>	<u>Could significantly exceed (\$1,950,416)</u>	<u>Could significantly exceed (\$1,931,240)</u>	<u>Could significantly exceed (\$4,454,007)</u>

<u>FISCAL</u> <u>IMPACT –</u> <u>Local</u> <u>Government</u>	FY 2022 (10 Mo.)	FY 2023	FY 2024	Fully Implemented (FY 2026)
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT – Small Business

Any small business who has made a contribution to a rape crisis center or a non-profit organization established and operating for the purpose of supporting a shelter for victims of domestic violence operated by the state or one of its political subdivisions in the recent past could be positively impacted as such entity could amend their Missouri tax return to claim a tax credit to reduce or eliminate their tax liability.

Any small business who will make a contribution to a rape crisis center or a non-profit organization established and operating for the purpose of supporting a shelter for victims of domestic violence operated by the state or one of its political subdivisions could be positively impacted as they would receive a tax credit in an amount greater than they would have had this proposed legislation not been passed.

Any small business who will make a contribution to a maternity home could be positively impacted as they could receive a tax credit in an amount greater than they would have had this proposed legislation not been passed.

FISCAL DESCRIPTION

Current law authorizes a tax credit for contributions to domestic violence shelters in an amount equal to fifty percent (50%) of the contribution, with the maximum annual amount of tax credits limited to \$2 million. This proposed legislation increases the tax credit from fifty percent (50%) of the amount contributed to seventy percent (70%) beginning July 1, 2022, and removes the limit on the cumulative amount of tax credits claimed by all taxpayers in a fiscal year beginning July 1, 2022.

This act also adds a definition of "rape crisis center" to allow taxpayers to receive tax credits for contributions to such facilities. (Section 135.550)

Current law authorizes a tax credit for contributions to maternity homes in an amount equal to fifty percent (50%) of the contribution, with the maximum annual amount of tax credits limited to \$3.5 million. This proposed legislation increases the tax credit from fifty percent (50%) of the amount contributed to seventy percent (70%) beginning July 1, 2022, removes the limit on the cumulative amount of tax credits claimed by all taxpayers in a fiscal year beginning July 1, 2022, and removes the sunset provision. (Section 135.600)

L.R. No. 0930S.02I

Bill No. SB 155

Page **13** of **13**

February 8, 2021

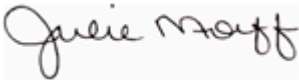
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of Administration – Budget & Planning Division

Missouri Department of Revenue

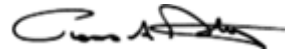
Missouri Department of Social Services



Julie Morff

Director

February 8, 2021



Ross Strobe

Assistant Director

February 8, 2021