COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0963S.01I
Bill No.: SB 82
Subject: Taxation And Revenue - Income; Tax Credits; Urban Redevelopment
Type: Original
Date: March 3, 2021

Bill Summary: This proposal authorizes a tax credit for urban farms located in a food desert.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
General Revenue Fund	$0	Up to ($100,000)	Up to ($100,000)
Total Estimated Net Effect on General Revenue	**$0**	**Up to ($100,000)**	**Up to ($100,000)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
Total Estimated Net Effect on Other 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 All 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

Section 135.1610 - Tax Credit for Urban Farms Located In a Food Desert

Officials from the **Office of Administration – Budget & Planning Division (B&P)** state this proposed legislation, for all tax years beginning on or after January 1, 2022, creates a tax credit for taxpayers who establish an urban farm within a classified food desert within the state. If an urban farm is established within a qualifying area, the qualifying taxpayer would be able to claim a tax credit against their state tax liability up to 50% of the eligible expenses for establishing the urban farm. No urban farm can claim a tax credit in excess of $1,000. The tax credits may be carried forward to the next three (3) succeeding tax years. There is a $100,000 cap placed on the tax credit.

This proposed legislation could reduce General Revenue (GR) and Total State Revenue (TSR) up to ($100,000) annually and could impact the calculation under Article X, Section 18(e).

Officials from the **Missouri Department of Revenue (DOR)** state this proposed legislation would allow a tax credit against a taxpayer's state tax liability equal to fifty percent (50%) of the eligible expenses for establishing an urban farm starting on January 1, 2022. The tax credit **cannot** be transferred, sold or assigned. The total amount of credits that can be authorized annually is $100,000. DOR assumes the impact to GR would be a loss of "Up to" the $100,000 that can be authorized annually. The first tax returns claiming the credit will be filed in January 2023 (Fiscal Year 2023).

Fiscal Year	Loss to General Revenue
2022	$0
2023	(Up to $100,000)
2024	(Up to $100,000)

DOR assumes one (1) FTE Associate Customer Service Representative is needed for every 6,000 tax credits redeemed, one (1) FTE Associate Customer Service Representative is needed for every 4,000 tax credit transfers with CISCO phones and licenses, and one (1) FTE Associate Customer Service Representative is needed for every 7,600 errors/correspondence generated. DOR also anticipates the need for additional equipment and expense for form and system updates.

Oversight notes this proposed legislation states that no taxpayer shall claim a tax credit in excess of one thousand dollars ($1,000). The cumulative amount of tax credits that may be authorized in any calendar year shall not exceed one hundred thousand dollars ($100,000). Oversight assumes the minimum number of taxpayers that claim the tax credit created could be as low as 100 each year. In addition, the tax credits created shall not be transferred, sold, or assigned. Therefore, Oversight assumes DOR can absorb the responsibilities associated with the tax credit created with existing resources. Should the number of redemptions or the number of errors generated prove to be significant, DOR may seek additional FTE through the appropriation process.

Officials from the **Missouri Department of Agriculture – Missouri Agricultural & Small Business Development Authority (MASBDA)** state MASBDA does not currently receive funds from General Revenue or Federal sources to administer any programs. All revenues are from fees which pay for MASBDA's administrative costs.

MASBDA assumes that a non-refundable application fee of $100 will be charged to each applicant.

MASBDA states Section 348.080 gives MASBDA the authority to collect fees and charges, as the authority determines to be reasonable, in connection with its loans, advances, insurance, commitments, and servicing.

This is the same application fee for four (4) other MASBDA tax credit programs (New Generation Processing Entity initial application, New Generation Producer/Investor Tax Credit application, Agricultural Product Utilization Contributor contribution application, Qualified Beef Tax Credit application).

MASBDA notes the only program that does not charge the $100 fee is the Family Farm Breeding Livestock Tax Credit program. The program has a review fee of 1% of the family farm loan amount and that fee is under Section 348.500.

MASBDA indicates that each tax credit program has a bank account set up for all administrative/program activities.

Oversight assumes, then, the $100 would not impact state revenue(s). Therefore, Oversight will not report a fiscal impact for the $100 fee that may be charged on each applicant of the tax credit program created. However, Oversight estimates the total amount that may be collected totals $10,000 ($100 * 100 applicants).

MASBDA assumes the current five (5) employees of MASBDA will be sufficient enough to run this program and no additional equipment will need to be purchased. MASBDA's cost allocation is based on percentage of time spent on each program per fiscal year by employee. Our assumption is that the Urban Farms Tax Credit program will have approximately 15% more activity than the current New Generation Cooperative Incentive Tax Credit. Fiscal Year 2021 estimated salary total for New Generation is $15,724.67 which 15% increase is $18,083.37.

Officials from the **University of Missouri's Economic & Policy Analysis Research Center (EPARC)** assume 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 taxpayer's eligible expenses for establishing an urban farm in a food desert.

The amount of the tax credit claimed shall not exceed the amount of the taxpayer's state tax liability in the tax year for which the credit is claimed, and the taxpayer shall not be allowed to claim a tax credit under this section in excess of one thousand dollars ($1,000) for each urban farm. However, any tax credit that cannot be claimed in the tax year the contribution was made may be carried over to the next three (3) succeeding tax years until the full credit is claimed

EPARC assumes $100,000 in tax credits may be authorized and claimed in any given year.

EPARC notes, the <u>maximum reduction</u> to Net General Revenue <u>could</u> be $400,000. This would occur if individuals who were awarded the credit in the first year, second year, third year did not claim the credit in the year in which the credit(s) were received but were claimed in one year, the fourth year of the program, in addition to the $100,000 authorized in the fourth year (Fiscal Year 2026).

Oversight notes this proposed legislation would grant a tax credit to taxpayers who establish an urban farm in a food desert equal to fifty percent (50%) of the eligible expenses incurred in establishing such urban farm.

This proposed legislation defines a "Food Desert" as "a census tract that has a poverty rate of at least twenty percent (20%) or a median family income of less than eighty percent (80%) of the statewide average and where at least five hundred (500) people or thirty-three percent (33%) of the population is located at least a quarter mile way from a full-service grocery store in an urban area".

Per data published by the United States Department of Agriculture, there are approximately 466 census tracts in Missouri that are low-access and low-income that are approximately one-half (0.5) miles away from a full-service grocery store in an urban area or ten (10) miles away from a full-service grocery store in a rural area.

Oversight is unable to determine, of the 466 low-access and low-income census tracts in Missouri that are approximately one-half (0.5) miles away from a full-service grocery store in an urban area or ten (10) miles away from a full-service grocery store in a rural area, how many would remain when reduced to a quarter mile (.25) away from a full-service grocery store.

In addition, per data published by the United States Census Bureau, there are approximately 119 urban areas observed in Missouri during the 2010 census of which 11 are urbanized areas and 108 are urban clusters.

Oversight notes "Eligible Expenses" are defined as "expenses incurred in the construction or development of establishing an urban farm in a food desert".

The fifty percent (50%) tax credit shall not exceed a taxpayer's state tax liability. Any amount of tax credit that exceeds the taxpayer's state tax liability may be carried forward to the next three (3) succeeding tax years.

No taxpayer may claim a tax credit in excess of one thousand dollars ($1,000) for each urban farm established in a food desert. The aggregate amount of tax credits authorized under this proposed legislation shall not exceed $100,000 during any calendar year. Therefore, Oversight assumes the minimum number of tax credits that may be issued could be as low as 100 each year ($100,000 / $1,000).

Oversight notes the tax credit program created would begin January 1, 2022. Oversight notes taxpayers would not file their Tax Year 2022 claiming the tax credit created until after January 1, 2023 (Fiscal Year 2023).

Therefore, **Oversight** will report a revenue reduction to GR by an amount "Up to" $100,000 beginning in Fiscal Year 2023. Oversight notes the tax credit program created would sunset December 31st six (6) years after the effective date of this section.

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. 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 SOS for administrative rules is less than $5,000. SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, 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 SOS can sustain with SOS's core budget. Therefore, 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 proposed legislation. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriations process.

Officials from the **Joint Committee on Administrative Rules** assume this proposal is not anticipated to cause a fiscal impact beyond its current appropriation.

Oversight assumes JCAR will be able to administer any rules from this proposed legislation with existing resources.

FISCAL IMPACT – State Government	FY 2022 (10 Mo.)	FY 2023	FY 2024
GENERAL REVENUE FUND			
Revenue Reduction- Section 135.1610 – Tax Credit For Establishing Urban Farm's In Food Deserts	$0	Up to ($100,000)	Up to ($100,000)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**$0**	**Up to ($100,000)**	**Up to ($100,000)**

FISCAL IMPACT – Local Government	FY 2022 (10 Mo.)	FY 2023	FY 2024
	$0	**$0**	**$0**

FISCAL IMPACT – Small Business

This proposed legislation could positively impact any small business that establishes an urban farm within a food desert, as defined, as such small business could qualify for a tax credit that would reduce or eliminate such small business's tax liability (Section 135.1610).

FISCAL DESCRIPTION

For all tax years beginning on or after January 1, 2022, this act authorizes a tax credit in an amount equal to fifty percent of a taxpayer's expenses incurred in the construction or development of an urban farm located in a food desert, as such terms are defined in the act.

The tax credit shall not exceed $1,000 for any single urban farm and shall not be transferable or refundable, but may be carried forward for three years. The total amount of tax credits authorized under this act shall not exceed $100,000 in any calendar year.

This act shall sunset after six years unless reauthorized by the General Assembly.

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 Agriculture
Missouri Secretary of State
Joint Committee on Administrative Rules
University of Missouri's Economic Policy & Research Analysis Center

Julie Morff
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March 3, 2021

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March 3, 2021