

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2335S.02I
Bill No.: SB 500
Subject: Tax Credits; Taxation and Revenue - Income; Children and Minors
Type: Original
Date: March 8, 2021

Bill Summary: This proposal would establish the Affordable Child Care for Families Tax Credit Act.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2022	FY 2023	FY 2024	Fully Implemented (FY 2025)
General Revenue Fund	\$0	Up to (\$6,859,900)	Up to (\$13,719,800)	Up to (\$20,579,700)
Total Estimated Net Effect on General Revenue	\$0	Up to (\$6,859,900)	Up to (\$13,719,800)	Up to (\$20,579,700)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2022	FY 2023	FY 2024	Fully Implemented (FY 2025)
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 2025)
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 2025)
Total Estimated Net Effect on FTE	0	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	Fully Implemented (FY 2025)
Local Government	\$0	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration – Budget & Planning Division (B&P)** state this proposed legislation will reduce Total State Revenue (TSR) by \$19,997,163 once fully implemented and will impact the calculation under Article X, Section 18(e).

B&P states this proposed legislation will grant a **refundable** tax credit to eligible individuals who receive the Federal Child and Dependent Care Tax Credit.

Eligible taxpayers shall have income less than \$50,000 for taxpayers filing as single or head of household and less than \$80,000 if married filing joint.

For Tax Year 2022, the tax credit shall equal 10% of the amount received for the federal credit. For Tax Year 2023, the tax credit shall equal 20% of the amount received for the federal credit. Beginning with Tax Year 2024, the tax credit shall equal 30% of the amount received for the federal credit.

Based on information provided by the Missouri Department of Revenue, for Tax Year 2018 (the most current complete year available), 120,874 taxpayers received the federal child and dependent care tax credit and the total amount of tax credits received was \$66,657,211.

B&P notes that while the credit would be available beginning with Tax Year 2022, the credit will not be claimed until individuals file their annual return the following April (Fiscal Year 2023). Table 1 shows the estimated impact by year.

Table 1: Impact per Year

Tax Year (Fiscal Year)	% of federal credit allowed	Impact to General Revenue
2022 (FY23)	10%	(\$6,665,721)
2023 (FY24)	20%	(\$13,331,442)
2024 (FY25)	30%	(\$19,997,163)

Officials from the **Missouri Department of Revenue (DOR)** state this proposed legislation creates a tax credit equal to a percentage of the amount a person receives under the Federal Child and Dependent Care Tax Credit program. The credit will be:

- For the tax year beginning on or after January 1, 2022, and ending on or before December 31, 2022, ten percent (10%) of such federal tax credit;
- For the tax year beginning on or after January 1, 2023, and ending on or before December 31, 2023, twenty percent (20%) of such federal tax credit; and
- For all tax years beginning on or after January 1, 2024, thirty percent (30%) of such federal tax credit.

This credit is **refundable** and cannot be carried forward to any subsequent year. This credit starts January 1, 2022 but the first time those credits will be claimed on a tax return would begin January 1, 2023 (Fiscal Year 2023).

DOR used its internal Income Tax Model that contains confidential taxpayer data to calculate the fiscal impact. DOR notes that \$66,657,211 was claimed at the federal level. This would result in the following impact:

Fiscal Year	Loss to General Revenue
2022	\$0
2023	(\$6,665,721)
2024	(\$13,331,442)
2025+	(\$19,997,163)

DOR states this would be a new credit, but not one that would need certification from another agency. The information needed to calculate the credit would be on the federal return. DOR assumes any impact from this proposal can be absorbed with existing staff.

In order to verify that the federal credit is correct, it may require a Discovery program to ensure compliance. This may require updates to the current tax processing system. The impact is unknown at this time.

This proposed legislation requires DOR to issue an annual report on the use of the program. This task could be absorbed by current management.

DOR will need form and programming changes to DOR's website.

Oversight notes DOR reports \$2,000 is needed for form and programming changes. Oversight assumes this amount to be minimal and assumes DOR can absorb the cost with existing resources.

Officials from the **University of Missouri’s Economic & Policy Analysis Research Center (EPARC)** state this proposed legislation creates the “Affordable Child Care for Families Tax Credit Act.” “For all tax years beginning on or after January 1, 2022, an eligible taxpayer shall be allowed a tax credit in an amount equal to a percentage of the amount such taxpayer would receive under a federal tax credit received under 26 U.S.C. Section 21”, a tax credit for the “expenses for household and dependent care services necessary for gainful employment.”

Married taxpayers must earn less than \$80,000 in Federal Adjusted Gross Income. Otherwise, taxpayers must earn less than \$50,000 in Federal Adjusted Gross Income. This credit is refundable.

EPARC assumes this proposed legislation will reduce Net General Revenue by:

Fiscal Year	Reduction to Net General Revenue
2022	\$0
2023	\$5,832,000
2024	\$11,671,000
2025	\$17,504,000

Oversight notes this proposed legislation would grant a taxpayer a tax credit equal to a percentage of the amount such taxpayer would receive under a federal tax credit authorized under 26 U.S.C. Section 21. Oversight notes this is the Federal Child and Dependent Care Tax Credit.

Oversight notes, under this proposed legislation, taxpayers would receive the following amount of credit(s)

- For Tax Year 2022 – ten percent (10%) of the amount of federal tax credit received
- For Tax Year 2023 – twenty percent (20%) of the amount of federal tax credit received
- For Tax Year 2024, and each tax year thereafter – thirty percent (30%) of the federal tax credit received.
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Oversight notes, per information published by the [Internal Revenue Service](#) for Tax Year 2018 (the most recent tax year data available), 124,200 Missouri taxpayers claimed the Federal Child and Dependent Care Credit. Oversight notes the total amount claimed by Missouri taxpayers totaled \$68,599,000.

Oversight estimates, then, that General Revenue (GR) could be reduced by the following amounts per fiscal year:

Fiscal Year	Reduction to General Revenue
2022	\$0
2023	\$6,859,900
2024	\$13,719,800
2025	\$20,579,700

For purposes of this fiscal note, Oversight will report a revenue reduction to GR equal to an amount “Up to” the amount(s) estimated by Oversight beginning in Fiscal Year 2023.

<u>FISCAL</u> <u>IMPACT – State</u> <u>Government</u>	FY 2022 (10 Mo.)	FY 2023	FY 2024	Fully Implemented (FY 2025)
GENERAL REVENUE FUND				
<u>Revenue</u> <u>Reduction –</u> Section 135.345 – Tax Credit Equal To Percentage Of Federal Child & Dependent Care Tax Credit		<u>Up to</u> (\$6,859,900)	<u>Up to</u> (\$13,719,800)	<u>Up to</u> (\$20,579,700)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>\$0</u>	<u>Up to</u> <u>(\$6,859,900)</u>	<u>Up to</u> <u>(\$13,719,800)</u>	<u>Up to</u> <u>(\$20,579,700)</u>

<u>FISCAL</u> <u>IMPACT –</u> <u>Local</u> <u>Government</u>	FY 2022 (10 Mo.)	FY 2023	FY 2024	Fully Implemented (FY 2025)
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT – Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

For all tax years beginning on or after January 1, 2022, this act creates a tax credit in an amount equal to a percentage of the amount of a taxpayer's federal child and dependent care tax credit. The amount of the credit shall increase in ten percent increments per tax year, beginning with ten percent in the 2022 tax year until the credit reaches thirty percent for all tax years beginning on or after January 1, 2024. Taxpayers with a federal adjusted gross income in excess of \$50,000 if filing single, head of household, or widowed, or \$80,000 if married filing combined shall not be eligible for the credit.

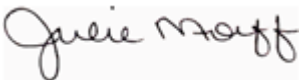
The tax credits shall be applied to a taxpayer's Missouri income tax liability after all reductions for other credits for which the taxpayer is eligible have been applied. If the tax credit exceeds the amount of the taxpayer's tax liability, the excess amount shall be refunded.

The Department shall prepare an annual report regarding the tax credit established by this act containing certain information as described in the act.

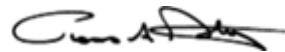
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of Administration – Budget & Planning Division
Missouri Department of Revenue
University of Missouri's Economic & Policy Analysis Research Center



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March 8, 2021



Ross Strobe
Assistant Director
March 8, 2021