COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5976S.01I
Bill No.: SB 2
Subject: Agriculture; Tax Credits; Taxation and Revenue - Sales and Use; Taxation and Revenue - Income
Type: Original
Date: September 19, 2022

Bill Summary: This proposal modifies provisions relating to tax relief.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2023	FY 2024	FY 2025	Fully Implemented (FY 2031)
General Revenue*/**	Could exceed ($2,256,766,436)	Less or More ($11,218,034) Up to ($40,053,907)	Less or More ($11,221,292) Up to ($40,057,165)	Could exceed ($320,508,279)
Total Estimated Net Effect on General Revenue	**Could exceed ($2,256,766,436)**	**Less or More ($11,218,034) Up to ($40,053,907)**	**Less or More ($11,221,292) Up to ($40,057,165)**	**Could exceed ($319,577,474)**

*Oversight notes the proposal extends the sunset dates of several existing tax credit programs – Oversight reflects a fiscal impact (loss of tax income) for those years past the current sunset date. Oversight also notes the fiscal impact estimates range from current average activity (or estimated activity) to the programs' annual caps.
**Oversight notes that the majority of the revenue loss in FY 2023 is due to the Section 143.083 – Tax Credit Rebates, and in FY 2031 due to the Section 143.011 - reduction in income tax rates from 4.8% to 4.5% - assumed to take place in CY 2028, CY 2029 and CY 2030. However the actual triggers of the new income tax rate reductions could occur well beyond CY 2030.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2023	FY 2024	FY 2025	Fully Implemented (FY 2031)
School District Trust Fund	(Unknown)	(Unknown)	(Unknown)	(Unknown)
Parks and Soils State Sales Tax	(Unknown)	(Unknown)	(Unknown)	(Unknown)
Conservation Commission	(Unknown)	(Unknown)	(Unknown)	(Unknown)
Total Estimated Net Effect on Other State Funds	**(Unknown)**	**(Unknown)**	**(Unknown)**	**(Unknown)**

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2023	FY 2024	FY 2025	Fully Implemented (FY 2031)
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)				
FUND AFFECTED	FY 2023	FY 2024	FY 2025	Fully Implemented (FY 2031)
General Revenue Fund	3 FTE	3 FTE	3 FTE	0 FTE
Total Estimated Net Effect on FTE	**3 FTE**	**3 FTE**	**3 FTE**	**0 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 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 2023	FY 2024	FY 2025	Fully Implemented (FY 2031)
Local Government	**(Unknown)**	**(Unknown)**	**(Unknown)**	**(Unknown)**

FISCAL ANALYSIS

ASSUMPTION

§135.305- Wood Energy Tax Credit (Effective with Emergency Clause)

Officials from the **Department of Revenue (DOR)** note the proposed legislation would reauthorize the Missouri wood energy producer tax credit until June 30, 2028. DOR notes the Wood Energy Tax Credit has a six million ($6,000,000) annual cap that is subject to appropriations. The legislature appropriated one million ($1,000,000) in credits in FY 2018 and FY 2019. For FY 2020 they appropriated $1.5 million and in FY 2021 they appropriated $740,000. This credit does not currently allow authorization of additional credits after June 30, 2020 (FY 2021) as the credit has sunset.

For informational purposes, the Department is showing the issuance and redemption of these credits over the last several years. These credits began in 1985.

Year	Issued	Corp Income	Fiduciary	Individual	Total Redeemed
FY 2022	$0.00	$120,576.10	$0.00	$436.567.41	$557,143.51
FY 2021	$717,800.00	$146,019.00	$0.00	$172,490.40	$318,509.40
FY 2020	$1,455,000.00	$668,903.93	$0.00	$436,773.75	$1,105,677.68
FY 2019	$678,887.19	$355,397.70		$433,172.93	$788,570.63
FY 2018	$970,000.00	$895,319.15		($4,231.66)	$891,087.49
FY 2017	$970,000.00	$294,516.28	$665,388.00	$414,717.72	$1,374,622.00
FY 2016	$1,000,000.00	$273,846.00		$370,433.49	$644,279.49
FY 2015	$0.00	$306,775.07		$1,913,564.51	$2,220,339.58
FY 2014	$0.00	$691,843.00		$2,161,274.36	$2,853,117.36
FY 2013	$0.00	$990,603.00		$1,291,797.51	$2,282,400.51
FY 2012	$0.00	$973,467.50		$2,519,741.48	$3,493,208.98
TOTALS	**$5,791,687.19**	**$5,717,266,73**	**$665,388.00**	**$9,709,734.49**	**$16,528,956.63**

This proposal would require DOR to re-implement and/or continue to conduct its processes pertaining to the wood energy producer tax credit until at least December 31, 2028 (and potentially longer if carryovers of such credits may be claimed after that date). For example, DOR would need to accept certifications of assignment of the wood energy producer tax credit (Section 135.305, RSMo), and conduct certain post-issuance compliance functions regarding Tax Credit Accountability Act reports required in connection with the wood energy producer tax credit (see, e.g., Section 135.800, RSMo).

Since DOR has forms and computer programs set up to handle this credit it does not believe this would have any additional administrative impact.

However, the restarting of this credit could result in a loss to general revenue and total state revenue Up to the $6 million annual cap starting on October, 2022 (FY 2023).

Officials from the **Office of Administration – Budget & Planning (B&P)** note**:**

The authorization, under Section 135.305, for the Wood Energy Producers Tax Credit ended on June 30, 2020. This would extend the tax credit of $5 per ton of processed material to 2028, with an annual authorization cap of $6 million, subject to appropriations. A Missouri wood energy producer shall be eligible for a tax credit on taxes otherwise due under chapter 143, except sections 143.191 to 143.261, as a production incentive to produce processed wood products in a qualified wood-producing facility using Missouri forest product residue.

The following redemption appropriations have been made for the Wood Energy tax credit:

Fiscal Year	Appropriation
2022	$1.5 million (HB 6 6.350)
2021	$740,000 (HB 2006 6.350)
2020	$1.5 million (HB 6)
2019	$1.0 million (HB 2007)
2018	$1.0 million (HB 7)

B&P notes that this section would be impacted by the emergency clause. Therefore, B&P estimates that this proposal could reduce general and total state revenue between $740,000 (low appropriation limit) and $6,000,000 (statutory authorization cap) annually beginning in FY23.

Oversight notes, per the Tax Credit Analysis submitted to the Oversight by the **Department of Natural Resources** (**DNR**) the Wood Energy Tax Credit had the following activity:

Wood Energy Tax Credit	FY 2019 ACTUAL	FY 2020 ACTUAL	FY 2021 ACTUAL	FY 2022 (Full Year - est.)	FY 2023 (Budget Year - est.)
Certificates Issued (#)	9	8	8	6	0
Projects/Participants (#)	9	8	8	6	0
Amount Authorized	$678,887	$1,455,000	$717,800	*$0*	$0
Amount Issued	$678,887	$1,455,000	$717,800	*$0*	$0
Amount Redeemed	$789,077	$1,105,678	$1,014,359	$555,362	$159,676

Oversight's policy is to show the extension of the tax credit program in the fiscal note. Oversight will show the revenue reduction to TSR and GR for Fiscal Year(s) beginning in Fiscal Year 2023.

Since the cap for the Wood Energy Tax Credit is $6,000,000 annually (subject to appropriation), for purposes of this fiscal note, **Oversight** notes there is an appropriation of $3,000,000 for FY 2023, and will report the extension of the tax credit as a continuation of the current appropriation level ($1,500,000 – HB 6 (2021)) up to the $3,000,000 appropriation for FY 2023 and up to the $6,000,000 annual cap in subsequent fiscal years.

Section 135.686 Meat Processing Facility Investment Tax Credit (Effective with Emergency Clause)

Officials from the **Department of Revenue (DOR)** assume this would extend from December 31, 2021 to December 31, 2028, the ability of a taxpayer to claim a tax credit for meat processing modernization or expansion related to the taxpayer's meat processing facility. The credit is equal to 25% of the qualifying expenses. The meat processing facility tax credit currently shares a $2,000,000 annual cap with the Qualified Beef tax credit.

This proposal adds language requiring the company that owns the meat processing facility to employ fewer than 500 people in the country to qualify for the tax credit. This may change the number of meat processing facilities that could qualify for the credit but will not impact the $2,000,000 cap.

This proposal removes the language that requires the sharing of the $2,000,000 cap with the Qualified Beef Tax Credit. Therefore, the meat processing facility tax credit will now receive the full $2,000,000 credit and the Qualified Beef program will receive its own $2,000,000 credit.

For informational purposes, the Department is providing information on the amount of the credit issued and redeemed since this credit began in 2018.

Year	Authorized	Issued *	Redemption by Corp Income	Redemption by Individual	Total Redeemed
FY 2022	$1,304,224.48	$1,304,244.48	$134,816.00	$358,408.61	$493,224.61
FY 2021	$829,675.76	$829,675.76	$88,207.26	$485,190.78	$573,398.04
FY 2020	$1,171,805.57	$1,162,452.67	$160,408.06	$219,963.08	$380,371.14
FY 2019	$627,807.59	$552,807.59	$113,434.50	$101,343.44	$214,777.94
FY 2018	$286,781.89	$286,781.89	$5,561.00		$5,561.00
TOTALS	$4,220,295.29	$4,135,962.39	$502,426.82	$1,164,905.91	$1,667,332.73

*shared cap with Qualified Beef

This proposal would require that DOR re-implement and/or continue to conduct its processes pertaining to the meat processing facility investment tax credit until at least December 31, 2028 (and potentially longer if carryovers of such credits may be claimed after that date). For example, DOR would need to accept certifications of assignment of the meat processing facility investment tax credit (Section 135.686, RSMo).

Since DOR has forms and computer programs set up to handle this credit they do not believe this would have any additional administrative impact. However, the restarting of this credit could result in a loss to general revenue and total state revenue Up to the $2,000,000 annual cap starting on October 1, 2022 (FY 2023).

Officials from the **Office of Administration – Budget & Planning** note**:**

The authorization for the Meat Processing Facility Tax Credit ended on June 30, 2020. This proposal would extend the $2,000,000 cap to June 30, 2028. This proposal would also limit the tax credit to meat processing facilities with fewer than 500 employees throughout the United States.

B&P notes that the annual authorization cap for this program is $2,000,000. While the 3-year average annual redemptions was $389,516 for FY19 through FY21.

B&P notes that this section would be impacted by the emergency clause. Therefore, this proposal could reduce general revenue and total state revenues by $389,516 to $2,000,000 annually beginning in FY23.

Oversight notes, currently, for all tax years beginning on or after January 1, 2017, but <u>ending on or before December 31, 2021</u>, a taxpayer shall be allowed a tax credit for meat processing modernization or expansion as it relates to the taxpayer's meat processing facility.

This proposed legislation modifies the "end date" of this tax credit program by extending it to all tax years ending on or before December 31, 2028 (from 2021).

Oversight notes that currently the Meat Processing Facility Investment Tax Credit (§135.686) and the Qualified Beef Tax Credit (§135.679) <u>share</u> a $2 million annual cap. Oversight notes this proposal removes language from §135.686 regarding sharing the cap, apparently to separate the two programs – so that <u>each</u> would have a $2 million annual cap. However, §135.679 language is not updated and still states "(t)he amount of tax credits that may be issued to all eligible applicants claiming tax credits authorized in this section and section 135.686 in a calendar year shall not exceed two million dollars." With this contradiction, Oversight is unsure if the programs will continue to share a $2 million annual cap or each have separate $2 million annual caps.

Oversight's policy is to show the extension of the tax credit program in the fiscal note. Oversight notes the current end date for the Meat Processing Facility Investment Tax Credit is December 31, 2021. Oversight notes this proposed legislation extends the end date to December 31, 2028. Oversight notes that taxpayers who are awarded the Meat Processing Facility Investment Tax Credit in Tax Year 2022 will not file their tax returns claiming the tax credit until after January 1, 2023 (Fiscal Year 2023). Therefore, Oversight will report the impact as a result of extending the end date of this tax credit program beginning in Fiscal Year 2023.

<u>**Section 135.755 Ethanol Tax Credit (Effective January 1, 2023)**</u>

Officials from **DOR** state starting January 1, 2023, a taxpayer that is a retail dealer that sells higher ethanol blend at their service station can claim a tax credit equal to five cents per gallon on the higher ethanol blend sold. This proposal requires that the higher ethanol blend be more than 15% but less than 85% ethanol. This is the ratio of the ethanol sold generally as E85 fuel.

The tax credit is capped at $5,000,000 per fiscal year, is not refundable, and cannot be transferred or sold, but excess tax credits can be carried forward to any of the five subsequent tax years.

The U.S. Energy Information Administration reported that in 2019 (the most recent complete year of data) that Missouri consumed 25.7 trillion Btu of ethanol. At a conversion rate of 120,286 Btu per gallon, it is estimated that Missouri used 213,657,450 gallons of fuel. This tax credit is five cents per gallon which is estimated to generate $10,682,872 in tax credits. However, since this credit is capped at $5 million they will show the impact to general revenue as the cap amount. This proposal allows the credit to be apportioned among all eligible retail dealers claiming the credit should the amount of credits claimed exceed the annual cap.

This tax credit would begin January 1, 2023 but would not be claimed on the tax return until January 2024 (FY 2024). Therefore the fiscal impact would be Up to $5,000,000 Million annually from FY 2024- FY 2029. This provision has a sunset date of December 31, 2028.

This is a new credit, primarily for business entities (corporations, maybe partnerships and S corporations and their members). The Department does not currently collect information on the amount of gallons of ethanol sold at the retail level. The Department would need to create a form and make changes to the existing tax credit form (MO-TC) for taxpayers to claim this tax credit. This would require form and computer changes of at least $3,596. Additionally, DOR would need the following FTE should the number claiming the tax credit reach these thresholds.

1 Associate Customer Service Rep. for every 6,000 credits redeemed
1 Associate Customer Service Rep for every 7,600 errors/correspondence generated

Officials from the **Office of Administration – Budget & Planning (B&P)** note:

This creates a tax credit, beginning in calendar year 2023, for retail dealers selling higher ethanol blend at their retail service station. The amount of the credit shall equal $0.05 per gallon of higher ethanol blend sold by the retail dealer and dispensed through metered pumps during the tax year in which the tax credit is claimed. These credits cannot be transferred, sold, or assigned. The tax credit is not refundable but has a 5 year carry-forward. The total amount of tax credits authorized for any fiscal year shall not exceed $5,000,000.

B&P notes that this section is impacted by the emergency clause. Therefore, this proposal could reduce general and total state revenue by up to $5M annually beginning in FY24. Due to the carryforward provision, in any given year the amount redeemed may exceed the estimate shown after the first full fiscal year.

For purposes of this fiscal note, **Oversight** assumes DOR can absorb the responsibilities of this tax credit with existing resources. Oversight provides further explanation below.

Oversight notes, for all tax years beginning on or after January 1, 2023, a retail dealer that sells higher ethanol blend at such retail dealer's service station is allowed a tax credit to be taken against the retail dealer's state income tax liability. The tax credit shall be equal to five cents ($0.05) per gallon of higher ethanol blend sold. The tax credits authorized shall not be transferred, sold, or assigned. The tax credits authorized shall not be refundable. Any amount of tax credits that exceeds a taxpayer's tax liability shall be permitted to be carried forward to any of the five (5) subsequent tax years.

Oversight notes the State of Iowa (Iowa) provides several tax credits for biofuel sales by retailers and blenders. Two (2) of Iowa's tax credits are the E15 Plus Gasoline Promotion Tax Credit and E85 Gasoline Promotion Tax Credit. Detailed information about Iowa's Biofuel Retailers Tax Credits can be found here. Iowa's E15 Plus Gasoline Promotion Tax Credit is available to retail dealers of gasoline who sell blended gasoline that is classified as E15 Plus but not classified as E85 gasoline. Currently, Iowa's tax credit is considered seasonal; providing various amounts of credit(s) at different times of the year. From June 1 – September 15 of each year, the tax credit is awarded at $0.10 per gallon. At all other times, the tax credit is awarded at $0.03 per gallon.

Iowa's E85 Gasoline Promotion Tax Credit is available to retail dealers of motor fuel that sell E85. A tax credit can be claimed for each gallon of E85 sold by the retailer during the tax year. The current tax credit is calculated at $0.06 per gallon.

Using the 9 State Energy Consumption Estimates – 1960 through 2019, published by the U.S. Energy Information Administration, Oversight compared various energy consumption estimates for Iowa and Missouri. Oversight provides the comparison below:

2019 - State Energy Consumption Estimates - U.S. Energy Information Administration			
Iowa and Missouri	Iowa	Missouri	Iowa As a Percent of Missouri
Barrels of Fuel Ethanol	4,2733,000	7,378,000	58%
Total Motor Gasoline - Including Fuel Ethanol (btu)	186,900,000,000,000	376,200,000,000,000	50%
Total Fuel Ethanol (btu)	14,900,000,000,000	25,700,000,000,000	58%
Total Energy Consumption by End - Use Sector (Transportation)	303,100,000,000,000	555,100,000,000,000	55%
Iowa As a Percent of Missouri/Topic Average			55%

Oversight assumes, based on the Iowa and Missouri energy consumption comparison shown above, that Iowa's fuel ethanol operations (specific to end user consumption/transportation) could be operating at 55% capacity of Missouri's fuel ethanol operations.

Using information included in Iowa's Biofuel Retailers Tax Credits Program Evaluation Study (December 2019), Oversight reviewed the amount of tax credits claimed in 2016 for Iowa's E15 Plus and E85 Promotion Tax Credit(s) to estimate the number of gallons sold by tax credit claimants and compared such estimate to the *actual* number of gallons sold:

<table>
<tr><th colspan="7">State of Iowa Summary</th></tr>
<tr><th colspan="6">E85 Gasoline Promotion Tax Credit</th><td rowspan="2">Actual Total Number of E15-20 & E85 Gallons Sold In Iowa</td></tr>
<tr><td>Iowa Actuals (2016)</td><td>Amount Claimed</td><td colspan="2">Iowa Tax Credit %</td><td>Oversight Estimated Number of Gallons Claimed By Tax Credit Claimants</td><td>Actual Number of Gallons Sold</td></tr>
<tr><td>E85 is a blend of gasoline that contains between 70% and 85% ethanol.</td><td>$2,143,259</td><td colspan="2">$0.16 per gallon</td><td>13,395,368.75</td><td>13,471,861</td><td rowspan="5">22,506,449</td></tr>
<tr><th colspan="6">E15 Plus Gasoline Promotion Tax Credit</th></tr>
<tr><td>Iowa Actuals (2016)</td><td>Amount Claimed</td><td>Iowa Tax Credit %</td><td>Amount Claimed Per %</td><td rowspan="3">8,915,127.11</td><td rowspan="3">9,034,588</td></tr>
<tr><td rowspan="2">E15 Plus are blends of gasoline that contain between 15% and 69% ethanol</td><td rowspan="2">$426,788</td><td>June 1 - September 15 - $0.10 per gallon</td><td>$227,620</td></tr>
<tr><td>All Other Dates - $0.03 per gallon</td><td>$199,168</td></tr>
</table>

Oversight notes the amount of estimated gallons sold by tax credit claimants and the actual amount of gallons sold are very similar. Therefore, Oversight anticipates a near one hundred percent (100%) participation rate in Missouri for each gallon of qualifying fuel sold.

Oversight notes, based on the data reported above, the total amount of E-15 & 20 & E85 gallons sold in Iowa during 2016 totals 22,506,449.

If the assumption that Iowa's fuel ethanol operations are operating at 55% capacity of Missouri's fuel ethanol operations is accepted, Oversight estimates Missouri's total E15 Plus and E85 gallons sold could total 40,920,816 gallons (22,506,449 / 55%). Oversight notes, a tax credit equal to $0.05 per gallon would generate a total amount of tax credits equal to $2,046,041 (40,920,816 * $0.05).

Oversight notes the tax credit created if for all tax years beginning on or after January 1, 2023. Oversight notes taxpayers will not filed their Tax Year 2023 tax returns until after January 1, 2024 (Fiscal Year 2024).

Oversight notes the actual and overall impact of this proposed legislation is unknown. For purposes of this fiscal note, Oversight will report a revenue reduction to GR equal to a range beginning with an amount "Up to" $2,046,041 (as estimated by Oversight) to $5,000,0000 beginning in Fiscal Year 2024.

Oversight notes the tax credit created would automatically sunset on June 30, 2028 unless reauthorized by the General Assembly.

Section 135.775 Biodiesel Retail Sellers Tax Credit (Effective January 1, 2023)

Officials from the **Department of Revenue (DOR)** note this proposal creates a new tax credit for a retail dealer that sells biodiesel fuel. To qualify as biodiesel fuel it must be a blend of diesel and biodiesel between 5% and 20% for on-road and off-road diesel-fuel vehicle use. Proof that that biodiesel meets ASTM International specifications will need to be provided to the Department. The tax credit will be equal to two cents ($0.02) per gallon on biodiesel blend of 5% but no more than 10% mix or five cents ($0.05) per gallon sold on a biodiesel blend in excess of 10%.

The retailer must show proof they own or operate the station and meet all the specifications in the proposal in order to apply for the credit. Verification and certification processes are usually handled by other agencies. Once another agency verifies a person's qualifications, they are given a receipt that is attached to the tax return for DOR to process. Requiring DOR to do the verification and certification is outside their normal administrative scope. The proposal indicates that DOR can work with the Department of Agriculture (MDA) to do some of this verification. MDA has indicated that this is also outside their normal scope of work. They assume in order to do this verification they will need 1 Auditor FTE and 2 Associate Customer Service Representatives FTE to do the necessary verifications.

This tax credit is to begin on January 1, 2023. Tax returns claiming the credit will not be filed until January 2024 (FY 2024). This tax credit has a $16 million cap annually. The credit is refundable but cannot be sold, transferred or assigned. This credit says that if the cap is reached then the credit must be apportioned among all applicants. This proposal has a sunset of December 31, 2028.

The U.S. Energy Information Administration reported that in 2019 (the most recent complete year of data) 3.7 trillion Btu of biodiesel was consumed in Missouri. At a conversion rate of 120,286 Btu per gallon, it is estimated that Missouri used 30,760,021.95 gallons of fuel. It should be noted this information does not indicate the percent of mix of the fuel. For fiscal note purposes they will assume that all of it would qualify for the five cents per gallon credit. It is estimated at five cents per gallon it could generate $1,538,001 in tax.

The motor fuel tax is paid by a supplier/distributor. They purchase and mix the fuel then distribute to a retail station to sell to customers. DOR has a report on the number of biodiesel blended each month; however, the suppliers do not indicate the mix amount (such as E15 or E85).

Calendar Year	Total Biodiesel Gallons
2018	54,990,702
2019	52,352,437
2020	63,683,900
2021(incomplete)	49,536,202

Based on figures reported by the suppliers/distributors of what fuel they mixed, they show 63,683,900 gallons (last complete year of data) mixed of biodiesel in calendar year 2020. At the five cents per gallon credit this would result in $3,184,195 in credits being issued. It is unclear if all these gallons would meet the requirements of this proposal.

At the estimated amount sold in 2019 and 2020 it does not appear this will reach its apportionment cap inside the fiscal note period. DOR will show the impact as a loss to general revenue of $1,538,000 to $16,000,000. This credit will need to be added to the MO-TC form as well as into their individual income tax filing system. The estimated cost of this credit is $3,596. Additionally they will need the 1 Auditor ($40,978) and the 2 Associate Customer Service Representatives ($26,328) for the verification and apportionment of the credit.

Officials from the **Office of Administration – Budget & Planning (B&P)** assume the proposal would create a tax credit to be taken against a retail dealer's state income tax liability. The amount of the credit shall equal two cents per gallon of biodiesel blend of at least five percent but not more than ten percent and five cents per gallon of biodiesel blend in excess of ten percent sold by the retail dealer at a retail service station during the tax year in which the tax credit is claimed. The total amount of tax credits authorized shall not exceed $16 million per fiscal year.

According to data from the U.S. Energy Information Administration, Missouri consumed 0.7 million barrels of biodiesel in 2019 (0.7M barrels * 42 gallons per barrel = 29,400,000 gallons). If all of the biodiesel sold fit the eligibility for the tax credit, the cost to the state could be between $588,000 (0.02 * 29,400,000) and $1,470,000 (0.05 * 29,400,000). This tax credit may incentivize additional biodiesel retail sales in Missouri; however, no estimate of a potential increase in sales is available.

B&P notes that this section is not impacted by the emergency clause. Therefore, this provision could reduce general and total state revenue between ($588,000) and ($16,000,000) annually beginning in FY24.

Officials from the **Missouri Department of Agriculture (MDA)** note:

MDA assumes that the Department of Revenue will administer the tax credits for both the biodiesel retail dealers and biodiesel producers. MDA assumes that the supporting role of the Weights and Measures Division to validate that the biodiesel blend a retail dealer claims is accurate (as specified in Subsection 135.775.6, RSMo) will require limited compliance checks and that the cost could be absorbed by MDA. However, if that assumption is incorrect and the Department of Revenue requires more stringent proof of compliance and MDA needs to collect and test many fuel samples at the discretion of DOR, there would likely be a fiscal impact to MDA.

Oversight notes that Missouri ranked among the top one-third of states in biodiesel consumption of 29 million gallons in 2019. (State by State Biodiesel Consumption EIA.GOV). Oversight agrees with the DOR's estimated impact of this tax credit; however, will show the lower estimated impact as average of the total sales between 2% & 5% because the actual sales information does not indicate the percent of mix of the fuel estimates. Oversight calculate the average of sales as follow:

Total Consumption 2019	$30,760,022
2% credit per gallon	615,200
5% credit per gallon	1,538,001
Average of 2% & 5%	**$1,076,601**

Therefore, for purpose of this fiscal note (extreme fluctuation of biodiesel markets 2020 & 2021due to COVID-19), **Oversight** will show the impact as a loss to general revenue beginning FY 2024 ranging from $1,076,601 to $16,000,000 (using 2019 consumption of biodiesel). Additionally, **Oversight** will note DOR's requested 1 Auditor FTE ($40,978 annually) and 2 Associate Customer Service Representatives FTE ($26,328 annually per each representative needed) for implementation and necessary verifications of this program beginning FY 2023.

Section 135.778 Biodiesel Producers Tax Credit (Effective January 1, 2023)

Officials **Department of Revenue (DOR)** assume this proposal creates a new tax credit for a producer of biodiesel fuel. Starting January 1, 2023 this will allow a credit against their state income tax liability. The amount of the credit will be $0.02 per gallon of biodiesel fuel produced by a Missouri biodiesel producer. The Department notes there are currently 6 producers in the state.

The producer must show proof they are registered with the United States Environmental Protection Agency and began construction on their facility before August 28, 2022. Verification and certification processes are usually handled by other agencies. Once another agency verifies a person's qualifications, they are given a receipt that is attached to the tax return for DOR to process. Requiring DOR to do the verification and certification is outside their normal administrative scope. The proposal indicates that DOR can work with the Department of Agriculture to do some of this verification. MDA has indicated that this is also outside their normal scope of work. They assume in order to do this verification they will need 1 Auditor FTE and 2 Associate Customer Service Representatives to do the necessary verifications. They believe the same staff needed for the retailers could handle these producers as well.

The tax credit cannot be transferred, sold or assigned but is refundable. This proposal places a $4 million annual cap on the credit. This credit says that if the cap is reached then the credit must be apportioned among all applicants. This proposal has a sunset of December 31, 2028.

Using the same number of gallons calculated above, 30,760,021.95, this $0.02 per gallon credit could result in a loss to general revenue of $615,200. Additionally, if they assume the suppliers reported the 63,683,900 and that all were Missouri produced then this would result in $1,273,678 in credits being issued. They will show the loss from $615,200 to $4,000,000.

This proposal adds a provision that if the $4 million cap on this credit is not fully used, then the remaining portion of the cap can be distributed to the retailers on their credit.

This credit will need to be added to the MO-TC form as well as into their individual income tax filing system. The estimated cost of this credit is $3,596. The FTE required for the retailer's tax credit are estimated to be able to handle this credit as well.

It should be noted that this proposal is allowing the producers tax credits to be claimed against the income tax liability imposed by Chapter 143. However, the proposal is not excluding withholding tax as is the usual practice. Allowing this credit against withholding tax could require additional programming changes expected to exceed $10,000 for which they do not have an appropriation.

Officials from the **Office of Administration Budget & Planning (B&P)** assume**:**

This proposal would create a tax credit to be taken against a Missouri biodiesel producer's state income tax liability for all tax years beginning with tax year 2023. The amount of the credit shall equal two cents per gallon of biodiesel fuel produced by a biodiesel facility that qualifies as a " Missouri biodiesel producer" according the bill language.

A Missouri biodiesel producer is defined as a person, firm, or corporation doing business in Missouri, is registered with the EPA, and has begun construction on a facility or been selling biodiesel produced at a Missouri facility on or before August 28, 2022.

B&P notes that the final requirement – begun construction or selling biodiesel fuel produced at a Missouri facility on or before August 28, 2022 would prevent new biodiesel producers entering Missouri after August 28, 2022 from receiving this tax credit. Therefore, this tax credit would only be available to existing Missouri biodiesel producers.

The total amount of tax credits shall not exceed $4,000,000 per fiscal year.

According to the Missouri Department of Natural Resources, as of April 2020, Missouri had five commercial biodiesel production facilities. The total nameplate capacity in the state is around 216 million gallons, which roughly accounts for 9% of the nation's capacity of nearly 2.5 billion gallons. If all of Missouri's biodiesel facilities qualify as a "Missouri biodiesel producer" according to the bill language (status of qualifications are unknown), and produce between 80% and 100% of their capacity, the cost to the state could be between $3,456,000 ($.02 * 216M gallons * 80%) and $4,320,000 ($.02 * 216M gallons * 100%). However, with a $4M maximum, the range would be between $3,456,000 and $4,000,000.

B&P notes that this section is not impacted by the emergency clause. Therefore, this provision could reduce general and total state revenue between ($3,456,000) and ($4,000,000) annually beginning in FY24.

Oversight notes the section further clarifies & adds a language regarding distributors that sell biodiesel blend directly to final users located in the state. Oversight assumes the clarification will not have an additional fiscal impact.

Oversight notes that Missouri ranked among the top one-third of states in a biodiesel production of 253 million gallons in 2019. (State by State Biodiesel Consumption EIA.GOV). Oversight agrees with the B&P's estimated impact of this tax credit. Oversight will assume that there is range of 50% and 100% participation rate in this program for purpose of this fiscal note. Therefore, **Oversight** will reflect the estimated impact of reduction in general revenues beginning Fiscal Year 2024 ranging from $2,277,000 up to all available cap of $4,000,000 (see table below). Additionally, **Oversight** will reflect the DOR cost for programing changes which could exceed $10,000 beginning FY 2023.

Origination Type	**Tax Credit* Annual Consumption**	**Total**
Blend of at least eighty percent feedstock originates in Missouri	($0.02 * 253,000,000)*.8	$ 4,048,000
100% percent blend	($0.02 * 253,000,000)*1	$5,060,000
Average of both @ 100% participation rate		**$4,554,000**
Average of both @ 50% participation rate		**$2,277,000**

§135.1610 Urban Tax Credits (Effective with Emergency Clause)

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, 2023, 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 $25,000. The tax credits may be carried forward to the next three (3) succeeding tax years. There is a $200,000 cap placed on the tax credit.

This proposed legislation could reduce General Revenue (GR) and Total State Revenue (TSR) up to ($200,000) annually and could impact the calculation under Article X, Section 18(e).

Officials from the **Missouri Department of Revenue (DOR)** state this proposal 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, 2023 (the effective date of the act). The tax credit cannot be transferred, sold or assigned. The credit is not refundable but can be carried forward the next three years (3). The total amount of credits that can be authorized annually is $200,000. No taxpayer may receive more than $25,000 in credits per each urban farm. DOR assumes the impact to General Revenue would be a loss of Up to the $200,000 that can be authorized annually. The first tax returns claiming the credit will start being filed in January 2024 (FY 2024).

Fiscal Year	Loss to General Revenue
2023	$0
2024	(Up to $200,000)
2025	(Up to $200,000)

This proposal defines an urban farm as a community-run garden but does not include personal farms or residential lots for personal use. Then this proposal adds a provision that requires the taxpayer to repay the tax credit if the urban farm is used for the personal benefit of the taxpayer instead of for producing agricultural products solely for distribution to the public for sale or for donation. Should credits be given out and then someone has used the products in violation of this provision then the credits could result in the recapture of the credit; however, the amount of the recapture is unknown.

DOR assumes this would be a new income tax credit and it would be added to the MO-TC and information about the credit would be added to their website and changes would be needed in their individual income tax system. DOR notes the costs to update these items is $3,596.50. DOR will need the following FTE should the number of credits redeemed justify the FTE.

a) One (1) FTE Associate Customer Service Representative is needed for every 6,000 tax credits redeemed, and
b) 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 twenty five thousand dollars ($25,000). The cumulative amount of tax credits that may be authorized in any calendar year shall not exceed two hundred thousand dollars ($200,000). In addition, the tax credits created shall not be transferred, sold, or assigned. Therefore, **Oversight** assumes DOR can absorb the responsibilities associated with the new tax credit 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 the 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.

MASBDA assumes that the current (5) employees of MASBDA will be sufficient 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. Their assumption is that the Urban Farms Tax Credit program will add approximately 8% more program activity for Fiscal Year 2022. Fiscal Year 2023 estimated salary total is $16,466 per Fiscal Note worksheet. Other administrative costs such as office supplies, postage, printing, etc... . are estimated approximately at $1,500 for this new program.

Oversight notes "Eligible Expenses" are defined as "expenses incurred in the construction or development of establishing an urban farm", defined as "an agricultural plot or facility in an urban area that produces agricultural products solely for distribution to the public by sale or donation…; however, "shall not include personal farms or residential lots for personal use."

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.

Oversight notes the proposal allows for the maximum of $25,000 award to one of the potential applicant, and the total tax credit must not surpass $200,000 annually for the entire program. Therefore, there could be potentially minimum of 8 ($200,000/$25,000) urban farms who could receive the tax credit.

Oversight notes this proposal allows for recapture of tax credits issued in circumstances where the use of the tax credit is deemed for the personal benefit of the taxpayer thus in violation of the act. Therefore, **Oversight** will reflect <u>an unknown saving to the General Revenue</u> in the fiscal note <u>beginning FY 2024.</u>

<u>**Section 137.1018 Rolling Stock Tax Credit (Effective January 1, 2023)**</u>

Officials from the **Department of Revenue (DOR)** assume this is the rolling stock tax credit and it sunset on August 28, 2020. This proposal would extend the sunset to 2028. Currently the tax credit expired August 28, 2020. This proposal adds language extending the credit to December 31, 2028.

The Rolling Stock credit is an appropriated tax credit. DOR is unable to determine what impact this proposal may have from moving the stop date from August to December.

This tax credit is subject to appropriations. The General Assembly appropriated the following amounts in the past:

FY 2010 - $4,000,000- Governor line-item vetoed

FY 2015 - $2,000,000 – Governor line-item vetoed

FY 2016 - $300,000

FY 2017 - $600,000 – Governor restricted $300,000

FY 2018 & FY 2019- $0 was appropriated

FY 2020- $200,000

FY 2021 and FY 2022 – no appropriation

FY 2023- $200,000

The extension of the sunset of this program is not expected to have a fiscal impact on the Department. Since this tax credit is appropriated, it would not have a fiscal impact unless the General Assembly votes to appropriate money to it.

Since DOR has the forms and computer programs set up to handle this credit they do not believe this would have any additional administrative impact. However, the restarting of this credit could result in a loss to general revenue and total state revenue based on the amount appropriated.

Officials from the **Office of Administration – Budget & Planning (B&P)** assume the proposal renews the expired Rolling Stock tax credit beginning August 28, 2022. B&P notes that while this proposal would begin in FY23, it will not impact state revenues unless and until an amount for the credit is appropriated by the General Assembly.

The B&P estimates that this proposal could reduce GR and TSR by $0 (low appropriation amount) to $4,000,000 (high appropriation amount) annually beginning in FY23.

In response to the similar proposal, HB 1720 -2022, officials from the **Missouri State Tax Commission (STC)** assumed the proposal would have resulted in an unknown fiscal impact on state revenues as the proposed legislation extends a tax credit subject to the appropriation process. The Rolling Stock Tax Credit provides that, subject to appropriation, a freight line company could receive a property tax credit for expenses incurred to manufacture, maintain, or improve their qualified rolling stock in the State of Missouri, up to the amount of their property tax liability.

This tax credit is not refundable and is subject to an annual appropriation. Since authorized in 2009, the tax credit has been funded three (3) times: 2016 ($291,000), 2017 ($291,000) and 2020 ($194,000). STC notes, though, that the General Assembly has appropriated greater budget appropriations that were later reserved or restricted. STC notes, in 2016, the total eligible expenses of the nearly one hundred (100) private car companies totaled $23,372,795.

However, officials from the STC assume the proposal would not have a direct fiscal impact on their organization. **Oversight** does not have any information to the contrary. Therefore, **Oversight** will reflect a zero impact in the fiscal note for the STC.

Oversight notes the Rolling Stock Tax Credit provides an economic incentive to have private rail cars manufactured, maintained, and improved in the State of Missouri.

Additionally, the tax credit is subject to appropriation, a freight line company could receive a **property tax credit** for expenses incurred to manufacture, maintain, or improve their qualified rolling stock in the State of Missouri, up to the amount of the freight line company's property tax liability. The State of Missouri will then reimburse counties for any loss in property tax revenue resulting from utilization of the tax credit.

Oversight notes private care companies' assessed values are certified by the Missouri State Tax Commission and then reported to the Missouri Department of Revenue for billing and central collection. The property taxes collected by the Missouri Department of Revenue (less one percent (1%) for the cost of collection, which is deposited into the General Revenue Fund) are deposited into the County Private Car Tax Trust Fund. The funds within the County Private Car Fund are distributed to the counties of Missouri after six tenths of one percent (0.6%) is transferred to the Blind Pension Fund. The distribution is based on each county's percentage of main track line to the aggregate total of the state.

Oversight's policy is to show the extension of the tax credit program in the fiscal note. Oversight notes the Rolling Stock Tax Credit expired on August 28, 2020. Oversight notes this proposed legislation extends the expiration date to December 31, 2028.

Oversight will report the impact as a result of extending the expiration date of this tax credit program beginning in Fiscal Year 2023. Oversight notes, per the three (3) most recent Tax Credit Analyses received from the Missouri Department of Revenue, the Rolling Stock Tax Credit recognized the following activity:

Rolling Stock Tax Credit							
Fiscal Year	2016	2017	2018	2019	2020	2021 (Year To Date)	2022 (Budget Year)
Amount Authorized	$291,000	$291,000	$0	$0	$0	$0	$0
Amount Issued	$291,000	$291,000	$0	$0	$0	$0	$0
Amount Redeemed	$291,000	$291,000	$0	$0	$0	$0	$0

Oversight notes the five (5) year average (2016 – 2020) amount of Rolling Stock Tax Credit(s) *issued* equals $116,400.

Oversight notes the Rolling Stock Tax Credit recognized the following appropriation history:

Fiscal Year(s)	General Assembly Appropriated	Amount Vetoed/Reserved/Restricted	Tax Credit(s) Available	Tax Credit(s) Issued
2010	$3,000,000	($3,000,000)	$0	$0
2011-2014	$0	$0	$0	$0
2015	$2,000,000	($2,000,000)	$0	$0
2016	$300,000	($9,000)	$291,000	$291,000
2017	$600,000	($309,000)	$291,000	$291,000
2018	$0	$0	$0	$0
2019	$1	$0	$1	$0
2020	$200,000	($6,000)	$194,000	$0

Oversight's policy is to show the extension of the tax credit program in the fiscal note.

For additional information regarding the Rolling Stock tax credit program, please refer to the Oversight Division's sunset review performed in 2019.
https://www.legislativeoversight.mo.gov/oversight/Sunset_Reviews/Rolling.pdf

For purposes of this fiscal note, **Oversight** will report a revenue <u>reduction</u> to General Revenue (GR) equal to a range, beginning at $0 (no appropriation is made for the Rolling Stock Program) "<u>up to or could exceed" $291,000</u> (highest <u>final approved</u> budget authority to date, future appropriations could be larger) beginning in Fiscal Year 2023. Lastly, **Oversight** notes the tax credit will expire on December 31, 2028.

<u>Section 143.011 – Individual Income Tax Rate</u>

Officials from the **Department of Revenue (DOR)** assume in 2013 their individual income tax rate was 6% per the tax tables printed in statutes. In 2014, SB 509 then allowed for five reductions of the individual income tax rate based on certain revenue triggers (Section 143.011.2). The Department notes that currently three of those reductions have occurred (TY 2018, TY 2019 and TY 2022) and the fourth is forecasted to happen in tax year 2023 which will set the rate at 5.2%.

Additionally, in 2019 HB 2540 was added to statues that caused the individual income tax rate to be decreased by four-tenths of one percent (Section 143.011.3). Then during the 101st General Assembly regular session SB 153 & 97 was passed that would allow starting in tax year 2024 another two reductions of SB 509 (Section 143.011.4). Therefore as of the filing of the fiscal note the individual income tax rate for tax year 2022 is 5.3% and the tax rate scheduled for tax year 2023 is 5.2%.

This proposal in Section 143.011.5 adds language that would allow the individual income tax rate to decrease below the scheduled 4.8%. This proposal allows an additional three 0.1%

reductions allowing the tax rate to drop to 4.5%. This proposal does restrict the additional three reductions to no more than one per year.

These future reductions are only allowed to occur if 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 two hundred fifty million dollars.

Additionally, this proposal requires the $250 million trigger to be adjusted annually for inflation starting in the first year these three reductions are made. It is unclear from the language in the proposal as to when the calculation of the trigger and implementation of the cut would occur.

For fiscal note purposes only, they assume that the reductions are eligible to occur starting with tax year 2028 (the first year after the current reductions). Additionally, the current process of calculating the SB 509 trigger is done in the fall and implemented the following tax year starting January 1st. For fiscal note purposes, they assumed that same process is followed.

Using the Department's internal Income Tax Model that contains confidential taxpayer data they were able to estimate the following impact of these new changes for tax year 2023.

Tax Year	Amount
2028	($107,359,071.89)
2029	($213,886,755.60)
2030	($319,577,473.68)

The Department uses a 42%/58% split to convert the tax year numbers to fiscal year numbers.

Fiscal Year	Loss to GR
2028	($45,090,810.19)
2029	($152,100,699.05)
2030	($258,276,857.19)
2031	($319,577,473.68)

The Department notes this provision will require changes to their taxpayer program, forms and website. They estimate it will cost $10,000 for these changes. No additional FTE would be needed to implement these tax changes.

Officials from the **Office of Administration (B&P)** assume this proposal would create three additional 0.1% reductions to the top rate of income tax to begin after all existing rate reductions under current law have occurred, dependent on net general revenue growth. The additional reductions shall only occur when net general revenue in a fiscal year has grown by at least $250 million over the highest of the previous three fiscal years.

B&P notes that the net general revenue growth requirement is to be adjusted annually for inflation after the first trigger has been met. For example: if the first trigger is met for tax year 2028, then the $250 million would be adjusted before determining whether the trigger was again met for tax year 2029 or later. B&P further notes that per Paragraph 144.011.5(1)(b) the trigger is to be adjusted by the "percent increase in inflation", which is defined under Subdivision 143.011.7(4).

B&P further notes that under current law the top tax rate will be 5.2% starting with tax year 2023. B&P notes that per SB 153 (2021) there will be a 0.1% reduction in the top rate for tax year 2024. Based on current revenue forecasts and average revenue growth, B&P estimates that revenues in FY24, FY25, and FY26 will reach the growth trigger requirement for reductions to the top rate of tax. Therefore, the top rate of tax is estimated to be reduced by 0.1% in tax years 2025, 2026, 2027 under SB 509 (2014) and SB 153 (2021). Table 1 shows the current versus proposed top rate of tax.

Table 1: Current versus Proposed
Top Tax Rate

Tax Year	Current Law	Proposed
2023	5.20%	5.20%
2024	5.10%	5.10%
2025	5.00%	5.00%
2026	4.90%	4.90%
2027	4.80%	4.80%
2028	4.80%	4.70%
2029	4.80%	4.60%
2030	4.80%	4.50%

Using tax year 2019 data, the most recent complete tax year available, and accounting for the changes in individual income tax law created by SB 509 (2014) and SB 153 (2021), B&P estimates that this proposal may reduce tax collections by $107.7M as early as tax year 2028. Once this proposal fully implements, B&P estimates this provision could reduce tax collections by $320.5M annually, compared to revenues under SB 509 (2014) and SB 153 (2021) with a top rate 4.8%. Table 2 shows the estimated revenue impact by tax year.

Table 2: Estimated Impact by Tax Year

Tax Year	GR Impact
2028	($107,674,784)
2029	($214,513,138)
2030	($320,508,279)

However, because this proposal would take effect January 1, 2023 individuals will adjust their withholdings and declarations during FY23. Based on actual collections data, B&P estimates that 42% of individual income taxes are paid during fiscal year 1 and 58% are paid during fiscal year 2. Therefore, B&P estimates that this provision could reduce TSR and GR by $45.2M as early as FY28. Once fully implemented, and annually thereafter, this proposal may reduce TSR and GR by $320.5M, compared to revenues under SB 509 (2014) and SB 153 (2021) with a top rate 4.8%. Table 3 shows the estimated impact by fiscal year.

Table 3: Estimated Impact by Fiscal Year

Fiscal Year	GR Impact
2028	($45,223,409)
2029	($152,546,893)
2030	($259,031,097)
2031	($320,508,279)

Oversight notes that under the current law, as provided in SB 509 (2014) and SB 153 (2021) with a top rate 4.8% which would be establish by FY 2027 as shown below. (For purpose of this fiscal note the assumption is that the triggers are met each year consecutively to show the max impact)

Tax Year	Rate Reduction	Top Tax Rate	Reason/Bill	Business Pass- Through Exemption	Non-Refundable EITC
2017	n/a	6.0%	n/a	0%	0%
2018	0.1%	5.9%	SB 509 (2014) growth trigger met	5% (SB 509)	0%
2019	0.1% and 0.4%	5.4%	SB 509 (2014) growth trigger met HB 2540 (2018) flat reduction	10% (SB 509)	0%
2020	n/a	5.4%	n/a	10%	0%
2021	n/a	5.4%	n/a	10%	0%
2022	0.1%	5.3%	SB 509 (2014) growth trigger met	15% (SB 509)	0%
2023	0.1%	5.2%	SB 509 (2014) growth trigger met	20% (SB 509)	10% (SB 153)
2024**	0.1%	5.1%	SB 153 (2021) flat reduction**	20%	20% (SB 153)
2025*	0.1%	5.0%	SB 509 (2014) growth trigger met	20%	20%
2026*	0.1%	4.9%	SB 153 (2021) growth trigger met	20%	20%
2027*	0.1%	4.8%	SB 153 (2021) growth trigger met	20%	20%

*Estimated reduction timing based on current revenue forecasts and average growth.

Oversight notes that DOR and B&P assume that for each 1/10th percent decline will top rat to $102 million decline in general revenues.

Oversight notes that this proposal allows for additional three tenths of the percentage decline after the State reaches the 4.8% tax top rate. Each year, and for purpose of this fiscal note, the additional trigger would be met to show the greatest impact to the general revenue as shown below:

	Current Law	Proposed Law	Effect
2023	5.20%	5.20%	Current Law
2024	5.10%	5.10%	Current Law
2025	5.00%	5.00%	Current Law
2026	4.90%	4.90%	Current Law
2027	4.80%	4.80%	Current Law
2028	4.80%	4.70%	.1 tenth change
2029	4.80%	4.60%	.2 tenths change
2030	4.80%	4.50%	.3 tenths change

Oversight notes the last impact will b by the trigger in TY 2030 at which po decline will total 3 tenths of 100 perc the actual collection of tax for that year will occur in FY 2031. At the time, this will represe greatest impact from this proposal to the general revenue. Therefore, **Oversight** will note $ general revenues impact in the fiscal note.

<u>**Section 143.803 Individual Income Tax Credits & Refunds**</u>

Officials from the **Department of Revenue (DOR)** note this section gives an automatic refundable tax credit of $325 for a taxpayer with a filing status of single, married filing separately, or head of household with an adjusted gross income of less than $150,000 for their tax year 2021 return. Additionally, this grants an automatic refundable tax credit for a taxpayer with a filing status of married filing combined with an adjusted gross income of $300,000. They receive a $650 credit. The proposal requires the Department to issue these refund to the taxpayers by December 1, 2022 without any requirements that a taxpayer have to amend their tax return to receive the credit. This is to be a one-time credit.

The Department is not able to determine a final fiscal impact due to the following:

<u>CREDIT</u>

<u>Qualified Widower Not Allowed Credit</u>
This proposal in identifying specific filing categories eligible for the credit have excluded qualified widow(er)s from receiving the credit.

<u>Married Filing Combined Credit</u>

The proposal states that "a taxpayer with a filing status of married filing jointly, and with a Missouri adjusted gross income of less than three hundred thousand dollars, six hundred fifty dollars." The term "a taxpayer" instead of "taxpayers with a combined Missouri adjusted gross income" assumes that each person listed on the combined return would receive the credit. On a combined return, each spouse has their own Missouri taxable income and Missouri adjusted gross income (Section 143.031.2, RSMo) and their income tax liability is separate (Section 143.491.1, RSMo). This means each taxpayer in the couple would get a check for $650 so long as that particular taxpayer's reported Missouri adjusted gross income was less than $300,000.

Property Tax Credit Filers
DOR notes that it does not have enough time to pull the PTC returns to determine how many PTC returns were for single or married individuals. However, based on PTC return data, approximately 2.1% of all PTC claims are by surviving spouses. The Department assumes that surviving spouses would be treated as qualifying widow(er) for filing status. Therefore, such individuals would not qualify for this tax credit. The Department estimates that based upon the 72,379 PTC claims, hat around 1,520 (72,379 x 2.1%) would not qualify for this tax credit based on filing status.

Based on the 2019 income tax filing data, they estimate that 38.7% of all qualifying individual income tax returns are for married filing combined, while 61.3% of returns were filed by single and head of household individuals. They will assume a similar percentage for this fiscal note. Therefore, of the 70,859 (72,379 – 1,520) qualifying PTC returns, approximately 43,419 were filed by single individuals, qualifying for the $325 credit; while 27,440 were filed by married individuals, qualifying for the $650 credit. Table 4 shows the estimated tax credit impact for individuals filing the PTC only claim.

PTC Claims

	Returns		
PTC Claim Only	72,379		
Qualifying Widow(er)	2.10%		
# Don't Qualify	1,520		
	Returns		
Remaining # PTC	70,859		
Est. % Single	61.3%		
Est. % Married	38.7%		
Est. % Qualifying Widow(er)	2.1%		
	Returns	Credit	Total Credits
Est. # Single	43,419	$325	$14,111,132
Est. # Married	27,440	$650	$17,836,113
Est. # Qualifying Widow(er)	1,520	$0	$0
Total Credit			$31,947,245

Total Current Filers

Based on the 2019 individual income tax returns, the Department notes the following number of people would qualify for the listed amount of the credit.

Filing Status	Max MAGI	# of Filers	Tax Credit Amount	Total Impact
Single	$150,000	1,554,016	$325	$505,055,200
HOH	$150,000	380,109	$325	$123,535,425
MFJ*	$300,000	2,444,685	$650	$1,589,045,250
MO PTC(only)	$150,000	72,379	$325	$23,523,175
Total		**4,449,669**		**$2,249,583,120**

Missouri Residents without Taxable Income
This proposal is not limited to individuals with a Missouri tax liability. Therefore, it is possible that all Missouri adults over age 18 could file a return in order to qualify for this refundable credit. Using population estimates published by the U.S. Census and income tax filing data, an additional 230,316 Missouri residents may also apply for the credit. They do not have enough information to determine whether such individuals would file as single or married. For the simplicity of the fiscal note they will assume they all file as single.

There are at least 4,679,985 Missouri residents over the age of 18 in Missouri.

Filing Status	Max MAGI	# People	Tax Credit	Total Impact
Single	$150,000	1,554,016	$325	$505,055,200
MFJ*	$300,000	2,444,685	$650	$1,589,045,250
HOH	$150,000	380,109	$325	$123,535,425
MO PTC (only)	$150,000	70,859	$325/$650	$31,947,245
Est. No Tax Return on File	$150,000	230,316	$325	$74,852,700
		4,679,985		$2,324,435,820

*Each taxpayer MAGI limited to $300,000 and each taxpayer receives $650 credit.

Missouri Residents, U.S Citizens and Resident Aliens
This proposal does not specify that the taxpayer have any Missouri income or other relationship with Missouri. Therefore, this refundable tax credit would apply to all U.S. citizens and resident aliens who have a Missouri adjusted gross income below the identified threshold (which includes $0 Missouri adjusted gross income).

This proposal does not limit this credit to taxpayers with a Missouri tax liability nor does it require you be a Missouri resident. Therefore, non-residents with little or no Missouri taxable income could be eligible to claim this refundable credit. The Self-Employed Health Insurance tax credit was similarly designed. It does not restrict the credit to Missouri residents or require Missouri taxable income and each year over 800 non-residents claim the credit for over $950,000 loss to general revenue. Given that many non-residents claim that limited tax credit they estimate that this $325 credit could result in significantly more than $1 million paid out to non-residents.

Not an Individual Income Tax
This proposal allows the credit to a taxpayer; however, taxpayer is not defined. This credit does not expressly state this is limited to individual income tax, so individuals with fiduciary or withholding tax liability under Chapter 143 might have this credit used against their fiduciary or withholding tax liability.

The Department is unable to estimate the number of non-Missouri residents that will claim this credit. They show the impact of this proposal as exceeding the provided estimates.

ADMINISTRATION

This proposal has an emergency clause that would make this proposal effective upon the Governor's signature. This proposal also requires that the refund checks be distributed to taxpayer's no later than December 1, 2022. Due to the listed concerns below, the Department will be challenged in meeting this deadline:

Mailing
Each year the Department processes approximately 3,200,000 individual income tax returns. Over the last several years the Department has averaged 1,375,000 taxpayers that receive a refund and have it direct deposited (43%). Another 450,000 are entitled to a refund and have an actual check mailed to them (14%). With the remaining 1,375,000 owing the state money (43%). While it would be the intention of the Department to send as many of the credits out to taxpayers via direct deposit they would still expect that at least 57% of the checks would be mailed.

Therefore if the 4,449,669 current Missouri filers that are identified above as getting the credit they would expect this distribution rate:

How Distributed	% of filer	Amount
Direct Deposit of Credit	43%	1,913,358
Mailed Credit	57%	2,536,311

Therefore the Department would need at a minimum envelopes, paper for checks and postage for each of these 2,536,311 credits. The Department does not purchase the paper for the checks that is handle by the Office of Administration, so those costs are not included in this fiscal note response.

The current rate for the envelopes and postage is $0.59 per piece. This would result in a **cost for the envelopes and postage** of **$1,496,423** ($0.59 * 2,536,311). However, the Department is experiencing difficulties in locating a vendor with envelopes in stock due to supply chain issues.

They have been searching for vendors to prepare for their regular tax season and do not have these supplies in stock. The Department has been told it could take more than eight weeks to receive enough supply.

The Department notes it takes two people to run the mail machine. They can do about 5,000 pieces of mail an hour. Given the number of credits to be mailed (2.5M) it would take over 500 hours to get them all out. To meet the deadline of December 1, 2022 the Department would be required to run the mail machine more than its normal 40 hours a week, resulting in the need to bring on temporary staff. The Department estimates that each temporary staff person would cost $12,750. At a minimum it would require **4 additional temporary staff** at a cost of **$51,000**.

In order to issue the checks the Department would be required to program their Individual Income Tax System to automatically apply the credit to each taxpayer's account if they meet the Missouri adjusted gross income limits. The programming costs for the Individual Income Tax System are estimated at $10,000. Should this be determined that it would need to be added into the financial institutions, and withholding databases these would require **additional programming changes** expected at another **$10,000**.

Oversight notes that the officials from the DOR assume the proposal will have a direct administrative impact on their organization. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect following cost in the fiscal note:

Mailing and Postage Cost	$ 1,496,423.00
Additional Temporary Staff (4 Temp Staff)	$ 204,000.00
ITSD Changes	$ 10,000.00
Total	**$ 1,710,423.00**

<u>Appropriation</u>

Annually the Department is given an appropriation to cover the amount of refunds they send to taxpayers. Their current appropriation authority for FY 2023 is $1.5B. As noted in this proposal, they do not have enough appropriation authority to pay the administrative costs of this proposal ($1,567,423) and for the credits themselves ($2,235,722,450) in addition to meeting their normal yearly refund obligation ($1,500,000,000). Without additional appropriations they will not be able to distribute all the refund checks by the required deadline of December 1, 2022.

The Department estimates the impact of this proposal will exceed the $2,251,160,543 to $2,336,013,243 for credit and administration costs in FY23.

<u>Section 143.803 – Income Tax Rebate</u>

Officials of the **Office of Administration – Division of Budget and Planning (B&P)** note this provision would grant a $325 refundable tax credit for taxpayers filing single, married filing separately, or head of household and $650 for married filing joint. Individual with a filing status of single, married filing separately, or head of household must have a Missouri adjusted gross income (MAGI) of less than $150,000; while married filing combined taxpayers must have a MAGI of less than $300,000 in order to qualify for the refundable credit. Per this proposal, DOR shall automatically apply the tax credit to a taxpayer's tax liability and refund any excess amount. The tax credit shall only be available for tax year 2021 and all refunds must be sent to taxpayers no later than December 1, 2022.

Concerns

1. B&P notes that Section 143.803.4 requires DOR to mail refunds to qualifying taxpayers no later than December 1, 2022. However, B&P assumes that this proposal would not become effective until sometime in October 2022. B&P notes that there would not be enough time for DOR to pull every single tax return filed for tax year 2021, apply the appropriate tax credit amount to any outstanding debt, and send refund checks to all 4,451,189 to 4,681,505 potentially qualifying taxpayers. It is unclear what would happen if DOR failed to meet the December 1, 2022 deadline.

2. B&P further notes that this proposal does not require taxpayers to have a Missouri tax liability or to be residents of Missouri. While this proposal sets an upper limit on an individual's MAGI, it does not set a lower limit. Therefore, non-Missouri residents with no Missouri taxable income would qualify for this refundable credit. Depending on the number of non-residents that file a Missouri tax return, the potential number of qualifying taxpayers could be significantly greater than the estimates shown below.

3. B&P also notes that that this credit is limited to only taxpayers with a specific filing status of single, married filing joint, married filing separate, or head of household. Therefore, individuals with other filing status, such as qualifying widow(er), would not be eligible for the refundable tax credit.

4. The language in Subdivision 143.803.1(2) states "a taxpayer with a filing status of married filing jointly". The phrase "a taxpayer" would apply the MAGI limit and $650 credit to each married filing joint taxpayer, rather than to the two combined taxpayers. Therefore, each married taxpayer with a MAGI of less than $300,000 will receive a $650 refundable tax credit. This could result in a married couple with a combined MAGI of $600,000 receiving a refundable credit of $1,300.

5. B&P notes that DOR has $1,684,000,000 in GR refund appropriation authority for FY23. The estimated amount of tax credits that would have to be refunded under this proposal is significantly greater than the existing appropriation. Therefore, without a corresponding emergency increase, DOR would be unable to issue all of the tax credit refunds by the December 1, 2022 deadline. In addition, DOR would be unable to issue all other typical refund requests until additional appropriation authority was granted.

<u>Revenue Impact</u>

For tax year 2019, the most recent complete year available, 1,554,016 single, 380,109 head of household, 2,444,685 married filing combined, and 72,379 PTC (no corresponding income tax return) taxpayers filed returns with Missouri taxable income.

PTC Information

B&P notes that it does not have enough information to determine how many PTC returns were for single or married individuals. However, based on PTC return data, approximately 2.1% of all PTC claims are by surviving spouses. B&P assumes that surviving spouses would be treated as qualifying widow(er) for filing status. Therefore, such individuals would not qualify for this tax credit. Based on the 72,379 PTC claims, B&P estimates that around 1,520 (72,379 x 2.1%) would not qualify for this tax credit based on filing status.

Based on the 2019 income tax filing data, B&P determined that 38.7% of all qualifying individual income tax returns are for married filing combined, while 61.3% of returns were filed by single and head of household individuals. For the purpose of this fiscal note, B&P will assume that PTC claims follow a similar percentage breakdown between single and married. Therefore, B&P estimates that of the 70,859 (72,379 – 1,520) qualifying PTC returns, approximately 43,419 were filed by single individuals, qualifying for the $325 credit; while 27,440 were filed by married individuals, qualifying for the $650 credit. Table 4 shows the estimated tax credit impact for individuals filing the PTC only claim.

Table 4: PTC Claims

	Returns		
PTC Claim Only	72,379		
Qualifying Widow(er)	2.10%		
# Don't Qualify	1,520		
	Returns		
Remaining # PTC	70,859		
Est. % Single	61.3%		
Est. % Married	38.7%		
Est. % Qualifying Widow(er)	2.1%		
	Returns	Credit	Total Credits
Est. # Single	43,419	$325	$14,111,132
Est. # Married	27,440	$650	$17,836,113
Est. # Qualifying Widow(er)	1,520	$0	$0
Total Credit			$31,947,245

Low Estimate

Based on the above data, B&P estimates that at least 4,449,669 individuals would qualify for this tax credit. B&P does not have enough information to estimate accurately how many non-residents may also apply for this tax credit. Table 5 shows the estimated impact.

Table 5: Estimated Low Impact from Tax Year 2021 Rebate

Filing Status	Max MAGI	# People	Tax Credit	Total Impact
Single	$150,000	1,554,016	$325	$505,055,200
MFJ*	$300,000	2,444,685	$650	$1,589,045,250
HOH	$150,000	380,109	$325	$123,535,425
MO PTC (only)**	$150,000	70,859	$325/$650	$31,947,245
		4,449,669		$2,249,583,120

*Each taxpayer MAGI limited to $300,000 and each taxpayer receives $650 credit.
**See Table 4 for filing status estimates.

High Estimate

However, as noted above this proposal is not limited to individuals with a Missouri tax liability. Therefore, it is possible that all Missouri adults over age 18 could file a return in order to qualify for this refundable credit. Using population estimates published by the U.S. Census and income tax filing data, B&P estimates that an additional 230,316 Missouri residents could also apply for the credit. B&P does not have enough information to determine whether such individuals would file as single or married. For the purpose of this fiscal note, B&P will assume that such individuals file as single.

Therefore, B&P estimate that at least 4,679,985 Missouri residents over the age of 18 may qualify for this credit. B&P does not have enough information to estimate accurately how many non-residents may also apply for this tax credit. Table 6 shows the estimated impact.

Table 6: Estimated High Impact from Tax Year 2021 Rebate

Filing Status	Max MAGI	# People	Tax Credit	Total Impact
Single	$150,000	1,554,016	$325	$505,055,200
MFJ*	$300,000	2,444,685	$650	$1,589,045,250
HOH	$150,000	380,109	$325	$123,535,425
MO PTC (only)**	$150,000	70,859	$325/$650	$31,947,245
Est. No Tax Return on File	$150,000	230,316	$325	$74,852,700
		4,679,985		$2,324,435,820

*Each taxpayer MAGI limited to $300,000 and each taxpayer receives $650 credit.
**See Table 4 for filing status estimates.

Summary

Therefore, B&P estimates that this provision could reduce TSR and GR by an amount that could exceed $2,249,583,120 to $2,324,435,820 in FY23.

Oversight, for purpose of the fiscal note, showing last available data (TY 2019) from the IRS below:

Filing Status (IRS DATA 2019)	Under $1	$1 under $10,000	$10,000 under $25,000	$25,000 under $50,000	$50,000 under $75,000	$75,000 under $100,000	$100,000 under $200,000	$200,000 under $500,000	Total Available for TC
Number of single returns up to $150,000	26,820	324,330	363,030	384,180	163,360	61,690	46,240	not qualified	1,369,650
Number of joint returns up to $300,000	14870	31580	78080	165040	187210	179890	303290	82280 some qualified	1,042,240
of household returns up to $150,000	1,300	29,750	121,310	137,590	44,650	16,250	11,090	not qualified	361,940

https://www.irs.gov/statistics/soi-tax-stats-historic-table-2

Oversight notes the proposal stipulates that a single taxpayer & head of household, who make less than $150,000 (AGI) would be eligible to receive $325 tax credit. Additionally, each taxpayer filing joint return and making less than $300,000 (AGI) would be eligible to receive $650 tax credit.

Oversight agrees with the DOR and B&P calculations provided within this fiscal note and doubling the amount of people, from the joint filing category, to calculate the total impact of this tax credit. Therefore, if there were 1,042,240 returns, representing joint filing status, there would be potentially 2,084,480 people who would qualify for the tax credit (taking IRS data above in consideration).

Therefore, **Oversight** will note DOR and B&P impact of this tax credit that could be lesser or exceed $2,249,583,120 to $2,324,435,820 in FY23.

<u>Section 144.030 Sales Tax Exemption of Utility Vehicles (Effective with Emergency Clause)</u>

Officials from the **Department of Revenue (DOR)** note:

This provision modifies the sales tax exemption on farm equipment. Currently farm equipment purchased for use on a farm is exempt from sales tax. A purchaser provides his sales tax exemption certificate to the seller and no sales tax is charged on the purchase if the purchaser says he will use the equipment on his farm. The Department notes this exemption certificate process is not changed by this provision.

This provision adds the definition of utility vehicle to the list of farm equipment that is exempt to clarify what counts as "farm equipment". Questions have arisen from sellers as to what counts as farm equipment. This proposal aims to add language clarifying that utility vehicles are considered farm equipment. The Department assumes no fiscal impact from the clarifying language.

This provision would no longer require the machinery in question to be used “exclusively” for agricultural purposes. Now, the qualifying machinery would only need to be used for “any” agricultural purpose. These changes may expand the current exemption to include more “dual purpose” items, such as a vehicle which is used on a farm, but also driven on public roads if the sellers were not already allowing them to be exempt. The Department believes that most sellers were allowing the exemption already; however should it be that a seller was not allowing an exemption this could have a minimal negative impact on the state.

Officials from the **Office of Administration (B&P)** note:

Section 144.030.2(22)(a) would add utility vehicles (UTVs) to the farm equipment sales tax exemption. In addition, this section would expand the farm equipment exemption to all vehicles used for any farm activities. B&P notes that the current exemption is for farm equipment used exclusively for farm activities.

Based on information provided by DOR they believe the sales tax exemption is already being used for UTV purchases and for other motor vehicles that are not actually being used exclusively for farm activities. Therefore, this provision may have an unknown, likely minimal, negative impact on MV sales tax funds beginning in FY23.

Oversight notes the proposed changes to the current sales tax exemptions may result in additional equipment that was not previously eligible for exemption that would now be exempt under this proposal. DOR and B&P both indicated this could impact state revenues; therefore, Oversight will show a negative impact of an unknown amount. However, based on DOR and B&P’s responses of “minimal negative impact to the state”, **Oversight** will assume the impact of this section would not exceed the $250,000 threshold.

Officials from the **Department of Natural Resources** deferred to the **Department of Revenue** for the potential fiscal impact of this proposal.

Officials from the **Missouri Department of Conservation** note this proposal would have an unknown fiscal impact but greater than $250,000. The Conservation Sales Tax funds are derived from one-eighth of one percent sales and use tax pursuant to Article IV Section 43 (a) of the Missouri Constitution. Any change in sales and use tax collected would affect revenue to the Conservation Sales Tax funds. However, the initiative is very complex and may require adjustments to Missouri sales tax law which could cause some downside risk to the Conservation Sales Tax. The Department assumes the Department of Revenue would be better able to estimate the anticipated fiscal impact that would result from this proposal.

Oversight notes that the Conservation Sales Tax funds are derived from one-eighth of one percent sales and use tax pursuant to Article IV Section 43 (a) of the Missouri Constitution, thus MDC=s sales taxes are constitutional mandates. Therefore, Oversight will reflect the B&P’s and DOR’s fiscal impact estimates for MDC’s funds.

Officials from the **City of Kansas City** assume the sales tax exemption provisions for agricultural utility vehicles in section 144.030 of this legislation may have a negative fiscal impact on Kansas City.

Oversight notes some jurisdictions impose certain amount of sales tax on sales of above farm equipment; however, DOR assume this exemption is available to all the buyers currently and this specific section just clarifies the language so all retailers know this specific merchandise is exempt from the sales tax. Therefore, **Oversight** will note (unknown) impact to the local political subdivisions.

Section 348.436 Agricultural Product Utilization and New Generation Cooperative Tax Credits (Effective with Emergency Clause)

Officials from the **Department of Revenue (DOR)** assume:

This proposal extends the Agricultural Product Utilization Contributor tax credit program and the New Generation Cooperative Incentive tax credit program from December 31, 2021 to December 31, 2028.

These credits share a $6 million annual cap. The cap is distributed to the New Generation Cooperative Incentive program first and the remaining unissued credits are disbursed then to the Agricultural Product Utilization Contributor program.

For informational purposes, the Department is showing the issuance and redemption of these credits over the last few years. Both these credits began in 1999.

Agricultural Product Utilization Credit

Year	Authorized	Issued	Total Redeemed
FY 2022	$0.00	$0.00	$305,376.33
FY 2021	$146,500.00	$146,325.46	$654,873.01
FY 2020	$190,000.00	$182,377.36	$2,713,522.64
FY 2019	$195,000.00	$168,988.98	$2,278,431.86
FY 2018	$4,068,190.27	$4,048,690.27	$2,785,905.52
FY 2017	$3,247,845.84	$2,908,334.26	$2,638,868.14
FY 2016	$2,513,350.09	$2,513,350.09	$1,553,332.97
FY 2015	$2,376,167.67	$2,376,167.67	$1,051,661.96
FY 2014	$1,573,719.77	$1,573,719.77	$2,022,953.37
FY 2013	$1,062,510.26	$1,062,510.26	$1,267,239.12
FY 2012	$2,479,356.45	$2,479,356.45	$1,468,155.74
TOTALS	$17,852,640.35	$17,459,820.57	$18,740,320.66

New Generation Cooperative Credit

Year	Authorized	Issued	Total Redeemed
FY 2022	$3,000,000.00	$2,322,480.13	$2,274,059.00
FY 2021	$12,650,000.00	$3,406,311.34	$462,260.73
FY 2020	$1,500,000.00	$360,000.00	$467,167.83
FY 2019	$3,153,843.50	$0.00	$839,615.09
FY 2018	$2,011,156.50	$1,931,717.01	$1,431,010.11
FY 2017	$1,873,475.00	$2,383,129.06	$2,093,123.93
FY 2016	$1,481,529.00	$1,278,144.64	$1,730,341.67
FY 2015	$7,938,220.00	$2,112,545.32	$2,842,869.70
FY 2014	$4,267,500.00	$4,426,280.23	$4,747,229.63
FY 2013	$5,612,982.00	$4,937,489.74	$2,100,091.11
FY 2012	-$652,500.00	$2,023,500.00	$826,952.82
TOTALS	$42,836,206.00	$25,181,597.47	$19,814,721.62

This proposal would require that DOR re-implement and/or continue to conduct its processes pertaining to these tax credits indefinitely. For example, DOR would need to accept certifications of assignment of the tax credits, and conduct certain post-issuance compliance functions regarding Tax Credit Accountability Act reports required in connection with the tax credits (see, e.g., Section 135.800, RSMo).

Since DOR has forms and computer programs set up to handle these credits they do not believe this would have any additional administrative impact. However, the restarting of this credit could result in a loss to general revenue and total state revenue of Up to the $6 million annual cap starting on October 1, 2022 (FY 2023).

Officials from the **Office of Administration (B&P)** assume:

The authorization for the Agricultural Product Utilization Contributor Tax Credit and the New Generation Cooperative Incentive Tax Credit ended on December 31, 2021. These credits share a $6 million annual cap. This provision would restart the Agricultural Product Utilization Contributor Tax Credit, as authorized under Section 348.430 and the New Generation Cooperative Incentive Tax Credit, as authorized under Section 348.432. This provision would also extend the sunset for both the Agriculture Product Utilization and New Generation tax credit programs through December 2028.

Agricultural Product Utilization Contributor Tax Credit: a contributor who contributes fund to the Missouri Agriculture and Small Business Development Authority.

New Generation Cooperative Incentive Tax Credit: any producer member (a person, partnership, corporation, trust or limited liability company whose main purpose is agricultural production that invests cash funds to an eligible new generation cooperative or eligible new generation processing entity) who invests cash funds in an eligible new generation cooperative or eligible new generation processing entity.

The average annual redemption from FY 2019 to FY 2021 were as follows:

- $1,882,276 Agricultural Product Utilization Contributor Tax Credit
- $ 590,015 New Generation Cooperative Incentive Tax Credit
- $2,472,291 3-year average annual redemption combined

B&P notes that this section would be impacted by the emergency clause. This proposal could reduce general and total state revenue between ($2,472,291) and ($6,000,000) annually beginning in FY23.

Officials from the **Department of Commerce and Insurance** assume a potential unknown decrease of premium tax revenues (up to the tax credit limit established in the bill) in FY2023, FY2024 and FY2025 as a result of the modification of the Agriculture Product Utilization Contributor and New Generation Cooperative Incentive tax credits. 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 modified tax credits.

Oversight notes this proposed legislation extends the expiration date for the Agricultural Product Utilization Contributor Tax Credit, as authorized under Section 348.430 and the New Generation Cooperative Incentive Tax Credit, as authorized under Section 348.432.

Oversight further notes, the aggregate amount of tax credits issued per fiscal year under Section(s) 348.430 and 348.432 shall not exceed six million dollars ($6,000,000). In May of each year, the Missouri Agricultural and Small Business Development Authority determines whether six million dollars ($6,000,000) will be utilized as New Generation Cooperative Incentive Tax Credits or not. The amount of New Generation Cooperative Incentive Tax Credit(s) that are determined to be unused may be sold as Agricultural Product Utilization Contributor Tax Credits.

Oversight's policy is to show the extension of the tax credit program(s) in the fiscal note. Oversight notes the current expiration date for the Agricultural Utilization Product Contributor Tax Credit and the New Generation Cooperative Incentive Tax Credit is December 31, 2021. Oversight notes this proposed legislation extends the expiration date to December 31, 2028. Oversight notes that taxpayers who are awarded the Agricultural Product Utilization Contributor Tax Credit or the New Generation Cooperative Incentive Tax Credit in Tax Year 2022 will not file their tax returns claiming the tax credit until after January 1, 2023 (Fiscal Year 2023). Therefore, **Oversight** will report the impact as a result of extending the end date of this tax credit program beginning in Fiscal Year 2023.

Oversight notes the five (5) year average (Fiscal Year(s) 2017 – 2021) amount of Agricultural Product Utilization Contributor Tax Credit(s) issued equals $1,490,943.
Oversight notes the five (5) year average (Fiscal Year(s) 2017 – 2021) amount of New Generation Cooperative Incentive Tax Credit(s) issued equals $1,616,231.

Therefore, for purposes of this fiscal note, **Oversight** will report the extension of these tax credits as a reduction to GR by an amount "up to" $3,107,174 (the combined five (5) year average amount of tax credits issued ($1,490,943 + $1,616,231)) to the shared cap of $6,000,000, beginning in Fiscal Year 2023.

Section 348.491 Specialty Agricultural Crops (Effective with Emergency Clause)

Officials from the **Department of Revenue (DOR)** note: Section 348.491 provision creates a loan program for farmers of the delineated specialty crops listed in this provision. The Department is not a party to these loans and therefore this section will not fiscally impact DOR.

Officials from the **Office of Administration (B&P)** note:

This would create the specialty agricultural crops loan program. A family farmer with less than $100K in gross sales per year can apply for a loan up $35K for up to 90% of the anticipated cost of the purchase of specialty crop seeds, seedlings or trees and other supplies and equipment needed for producing specialty crops - fruits and vegetables, tree nuts, dried fruits, and horticulture and nursery crops including, but not limited to, floriculture. Each family farmer is limited to one loan per family. The farmer shall be not charged interest on the loan for the first year.

The program would be managed by the Missouri Agricultural and Small Business Development Authority (MASBDA), who may impose a one-time loan review fee of one percent, which shall be collected by the lender at the time of the loan and paid to the authority. These fees go directly to the authority, not the state treasury.

The total amount of loans is not restricted; however, the lender tax credits proposed in Section 348.493 below are restricted to $300K. According to MASBDA, agriculture loans are typically made at higher interest rates than a home mortgage or vehicle. They estimate interest rates for the loans associated with this program could be from 5% - 10%.

- 5% rate: The potential loans would be up to $6M ($300,000 = .05x; x = 300,000/.05) and potential fees would be up to $60K ($6M x 1%).
- 10% rate: The potential loans would be up to $3M ($300,000 = .10x; x = 300,000/.10) and potential fees would be up to $30K ($3M x 1%).

Therefore, the fees generated could range from <u>$0 to $60,000 annually</u>.

This provision could impact the calculation under Article X, Section 18(e) between $0 and $60,000 annually beginning in FY24.

Oversight notes Section 348.491 allows for one time maximum loan of $35,000 per eligible farm. The lender is than required to forgive first year interest on such a loan.

Oversight notes that Section 348.491. 8 says: “The authority may impose a one-time loan review fee of one percent, which shall be collected by the lender at the time of the loan and paid to the authority.” According to Missouri Agricultural and Small Business Development Authority (MASBDA), agriculture loans are typically made at higher interest rates than a home mortgage or vehicle. MASBDA estimate interest rates for the loans associated with this program could range from 5% to 10%. For informational purposes, **Oversight** will assume the maximum loan amount of $35,000 is borrowed at 5% for 10 years. The simple amortization of the loan would show principle payment of $1,687 to be forgiven in first year, per each borrower, as shown in Table 2 below:

Table 2.

Month	Beginning Balance	Interest	Principal	Ending Balance
1	$35,000.00	$145.83	$225.40	$34,774.60
2	$34,774.60	$144.89	$226.34	$34,548.27
3	$34,548.27	$143.95	$227.28	$34,320.99
4	$34,320.99	$143.00	$228.23	$34,092.77
5	$34,092.77	$142.05	$229.18	$33,863.59
6	$33,863.59	$141.10	$230.13	$33,633.46
7	$33,633.46	$140.14	$231.09	$33,402.37
8	$33,402.37	$139.18	$232.05	$33,170.32
9	$33,170.32	$138.21	$233.02	$32,937.30
10	$32,937.30	$137.24	$233.99	$32,703.31
11	$32,703.31	$136.26	$234.97	$32,468.34
12	$32,468.34	$135.28	$235.95	$32,232.40
First Year Interest Total	**Year 1 end**	**$1,687.13**		

Oversight notes that the maximum tax credit allowable for lenders, under the proposal is $300,000 annually. To cover the forgone interest maximum it would allow for 177 ($300,000 / $1687) potential borrowers (family farms) to obtain this loan before the lenders begin to surpass the maximum tax credits allowed under the proposal.

<u>Section 348.493 Specialty Crop Lender Tax Credit (Effective with Emergency Clause)</u>

Officials from the **Department of Revenue (DOR)** note:

Section 348.493 creates a tax credit for the lenders in the Specialty Crops Act. No start date is listed for the tax credit so it is assumed it will start October 1, 2022 (FY 2023). The tax credit is equal to 100% of the interest waived in the first year the loan is made. The lender must apply to the Missouri Agricultural and Small Business Development Authority for approval of the credit. Once approved they will receive a certificate that will need to be submitted with their tax return for the redemption of the tax credit.

This proposal limits the amount of all tax credits authorized in a single year to $300,000. While the credit cannot be refunded it is allowed to be carried forward three years or transferred or assigned.

The Department notes this will be a loss to general revenue of up to the $300,000 cap annually. This proposal has a sunset ending in 2028.

This is a new tax credit that would need to be added to the MO-TC form. Programming updates, website updates and form updates are estimated to cost $3,596.

The Department notes this proposal requires the taxpayer to present a certificate of tax credit to the Department when they redeem their credit. The proposal also indicates that the Department will note on the certificate the amount of credit redeemed and the date redeemed. It should be noted that tax credits issued by agencies are currently entered into the central tax credit system (CMS). The agency enters into CMS the date of issuance of the credit, the amount of credit and the contact information of the person that receives the tax credit. The Department upon receipt of a claim for the redemption of the credit, reviews the system to determine if the credit is being claimed by the correct person and they enter into the system the date of redemption and amount redeemed. The CMS system maintains the outstanding balance of all credits. It is assumed that since this system exists, the Department would use it instead of doing the manual marking system requested by this proposal. Should the Department be required to process these tax credits differently than all the other credits this could result in additional unknown costs.

Oversight assumes DOR is provided with core funding to handle a certain amount of activity each year. Oversight assumes DOR could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, DOR could request funding through the appropriation process.

Officials from the **Department of Commerce and Insurance (DCI)** assume a potential unknown decrease of premium tax revenues (up to the tax credit limit established in the bill) in FY2024 and FY2025 as a result of the creation of the Specialty Agricultural Crops Act 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 new tax credit.

Oversight assumes DCI is provided with core funding to handle a certain amount of activity each year. Oversight assumes DOR could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, DCI could request funding through the appropriation process.

The department will require minimal contract computer programming to add this new tax credit to the premium tax database and can do so under existing appropriation.

Oversight notes that according to the U.S. Census of Agriculture - Missouri (2017), data regarding Special Crops, there were 3,654 existing farms involved in cultivation of such a harvest. The breakdown is shown below:

- Vegetables – 1449
- Orchards – 1359
- Berries – 846

Total – 3,654

Oversight notes the proposal limits this loan opportunity only to those farms with annual gross sales below $100,000. According to the MDA website there are currently 95,000 farms in Missouri.

Oversight notes, using U.S. Census of Agriculture (2017) data for Missouri (see table 1), that there are currently about 81,851 farms which would potentially qualify for this program. The data regarding Special Crop Farms, above, does not specify the annual sales produced by each farm (above or below $100,000). However, Oversight notes that using MDA and U.S. Census for Agriculture there could be potentially about 86% (81,851 / 95,000) of all Special Crop Farms (from 3,654) making below the $100,000 limit. This would represent about 3,142 farms currently harvesting special crops and potentially eligible for the up to $35,000 loan.

Table 1.

Range	Low	High	Total Farms Missouri	Low	High
Less then $999	$ 100	$ 999	17,281	$ 1,728,100	$ 17,263,719
$1000 to $2,499	$ 1,000	$ 2,499	8914	$ 8,914,000	$ 22,276,086
$2,500 to $4,999	$ 2,500	$ 4,999	9754	$ 24,385,000	$ 48,760,246
$5,000 to $9,999	$ 5,000	$ 9,999	12529	$ 62,645,000	$ 125,277,471
$10,000 to $24,999	$ 10,000	$ 24,999	14949	$ 149,490,000	$ 373,710,051
$25,000 to $49,999	$ 25,000	$ 49,999	11112	$ 277,800,000	$ 555,588,888
$50,000 to $99,999	$ 50,000	$ 99,999	7312	$ 365,600,000	$ 731,192,688
Total			**81,851**	**$ 890,562,100**	**$ 1,874,069,149**

U.S. Census of Agriculture - Missouri (2017)

Oversight notes that this proposal limits the amount of all tax credits authorized in a single year to **$300,000**. While the credit cannot be refunded it is allowed to be carried forward three years or transferred or assigned. Therefore, **Oversight** will note the loss to the **GR up to $300,000** annually.

Section 348.500 – Family Farms Act

Officials from the **Department of Revenue (DOR)** assume the Section 348.500.2 outlines the definitions and qualifications for participation in the Family Farm Breeding Livestock tax credit program. Previously the definition of "small farmer" required a farmer to have less than $250,000 in gross sales annually. This proposal is increasing the gross sales limit to $500,000. Increasing the limit may result in more farmers being able to qualify for the tax credit program.

Section 348.500.4 removes the restriction that a small farmer can only be eligible for one loan per family and per type of livestock. Removing this restriction may also increase the number of tax credits a farmer may receive and could increase the participation in the program of additional farmers.

Section 348.500.5 increases the loan amount for each type of livestock. This may result in larger loans that would qualify for the tax credits. This could also increase the participation in the program by additional farmers.

Livestock Type	Current Maximum Loan	Amended Maximum Loan
Beef cattle	$75,000	$150,000
Dairy cattle	$75,000	$150,000
Swine	$35,000	$70,000
Sheep and goats	$30,000	$60,000

This tax credit program currently has a $300,000 annual cap. The annual cap on this program is not changed by this proposal. So while these changes may result in more credits being eligible to be claimed, the Department assumes this will not result in additional fiscal impact to the State.

For informational purposes, the Department is providing the amount of credits that have been authorized, issued and redeemed, the last few years.

Year	Authorized	Issued	Total Redeemed
FY 2022	$16,936.36	$16,334.26	$24,021.17
FY 2021	$12,488.50	$2,429.88	$18,232.07
FY 2020	$26,849.87	$16,817.30	$9,636.08
FY 2019	$14,898.18	$39,235.88	$34,022.54
FY 2018	$42,093.03	$52,507.91	$106,558.44
FY 2017	$66,801.60	$70,892.19	$27,178.36
FY 2016	$72,855.33	$48,967.77	$35,495.50
FY 2015	$40,506.00	$39,309.78	$24,981.60
FY 2014	$39,423.64	$34,251.88	$22,770.02
FY 2013	$39,732.39	$35,044.24	$32,032.50
FY 2012	$31,328.73	$32,228.75	$53,947.47
TOTALS	$403,913.63	$388,019.84	$388,875.75

The Department does not estimate any administrative fiscal impact from this provision.

Officials from the **Office of Administration (B&P)** assume this proposal would increase the number of famers that would qualify for family farm breeding livestock loans. This provision would also increase the amount of loans that could be taken by farms, depending on the type of livestock.

B&P notes that the family farm tax credit is granted to lenders for interest forgone during the first year of a family farm breeding livestock loan. Therefore, this proposal could increase the number and dollar amount of loans granted, which in turn would increase the amount of interest eligible for the tax credit. B&P further notes that this proposal does not change the $300,000 annual issuance cap on the tax credit program, but it could increase the utilization of the loan program and tax credit. The three-year average issuance amount is $26,754 (FY19 – FY21). B&P notes that this section would be impacted by the emergency clause. Therefore, this proposal could increase annual issuances, decreasing GR and TSR, by up to ($273,246) beginning in FY23.

Officials from the DOR assume the proposal will have no fiscal impact on their organization. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for DOR for this section.

Oversight notes, according to the Tax Credit Analysis form, the Family Farms Act provides Missouri tax credits to lenders in lieu of the first year interest being paid on breeding livestock loans made to "small farmers" who are Missouri residents and who have less than $250,000 in gross agricultural product sales per year. The maximum eligible loan cannot exceed 90% of the cost of purchasing breeding livestock. Each small farmer shall be eligible for only one family farm livestock loan per immediate household family and only one type of livestock. The maximum amount of loan for each type of livestock is: Beef or Dairy cattle $75,000; Sheep or Goads $30,000; Swine $35,000.

Oversight notes the following certificates and amounts have been issued (from Missouri Depart. of Agriculture via e-mail) for the Family Farm Breeding Livestock Loan Program:

	FY 2017	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**
Certificates Issued	29	22	15	11	9
Amount Issued	$70,892	$52,508	$39,236	$16,817	$12,449

Oversight notes this proposal expands eligibility to farmers with less than $500,000 (from $250,000) in gross agricultural product sales per year, which could expand the program and increase the number of projects that qualify. The program has a $300,000 annual cap, and Oversight assumes this proposal may increase the number of projects that qualify for the credits; however, Oversight assumes the increase will not be by a substantial amount. Therefore, **Oversight** will reflect a cost of "Less than $100,000" to the General Revenue Fund for the Family Farm Breeding Tax Credit beginning in Fiscal Year 2023.

Overall Bill:

Officials from the **Department of Natural Resources**, the **Missouri Department of Transportation**, the **City of Claycomo**, the **City of Springfield**, and the **City of O'Fallon** each assume the proposal will have no impact on their respective organizations.

Therefore, for the purpose of this fiscal note, **Oversight** will reflect zero fiscal impact for the above-mentioned organizations.

Rule Promulgation

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

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. 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 $5,000. 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 its 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.

FISCAL IMPACT – State Government	FY 2023 (10 Mo.)	FY 2024	FY 2025	Fully Implemented (FY 2031)
GENERAL REVENUE FUND				
Revenue Reduction – Section 135.305 – Extension of the Wood Energy Tax Credit from 10/30/2020 to 12/31/2028 - p.3-5	($1,500,000) or up to ($3,000,000)	($1,500,000) or up to ($6,000,000) depending on appropriation	($1,500,000) or up to ($6,000,000) depending on appropriation	$0
Revenue Reduction – Section 135.686 - Extension of Meat Processing Facility Investment Tax Credit From December 31, 2021 to December 31, 2028 - p.6-7	Up to ($848,311) to ($2,000,000)	Up to ($848,311) to ($2,000,000)	Up to ($848,311) to ($2,000,000)	$0
Revenue Reduction – Section 135.755 – Tax Credit For Ethanol Blended Fuel Sales - p.7-11	$0	Up to ($2,046,041) to ($5,000,000)	Up to ($2,046,041) to ($5,000,000)	$0
Revenue Reduction – Section 135.775 – Tax Credit for Retail Sellers of Biodiesel - p.11-16	$0	Up to ($1,076,601) to ($16,000,000)	Up to ($1,076,601) to ($16,000,000)	$0
Cost – DOR – Section 135.775.04 implementation - p.13				
Personal Services	($78,028)	($86,555)	($88,286)	$0
Fringe Benefits	($52,623)	($64,411)	($65,699)	$0

Expense and Equipment	($9,756)	($11,941)	($12,180)	$0
Total Costs – DOR	($140,408)	($162,907)	($166,165)	$0
FTE Change – DOR	3 FTE	3 FTE	3 FTE	0 FTE
Revenue Reduction – Section 135.778 – Tax Credit for Producers of Biodiesel - p.14-16	$0	Up to ($2,277,000) to ($4,000,000)	Up to ($2,277,000) to ($4,000,000)	$0
Cost – DOR ITSD - Section 135.778 – Tax Credit for Producers of Biodiesel programing changes for withholding - p.14	Could exceed ($10,000)	$0	$0	$0
Cost – Section 135.1610 Urban Farm Tax Credits - p.16-18	$0	Up to ($200,000)	Up to ($200,000)	$0
Revenue Gain – Section 135.1610.6 Recapture of the tax credits - p.16-18	$0	Unknown	Unknown	$0
Revenue Reduction – Section 137.1018 Extension of Rolling Stock Tax Credit Program - p.18-21	$0 up to or could exceed ($291,000)	$0 up to or could exceed ($291,000)	$0 up to or could exceed ($291,000)	$0
Revenue Reduction – Section 143.011 Income Tax Reduction p.	$0	$0	$0	($319,577,474)

Revenue Reduction – Section 143.803 Tax Credits p. 21-33	Could exceed ($2,249,583,120)	$0	$0	$0
Cost DOR – Section 143.803 Implementation of Tax Credit disbursement p. 25-33	Could exceed ($1,577,423)	$0	$0	$0
Revenue Loss - §144.030 Modification of Farm Equipment Sales Tax Exemption - p.33-35	(Unknown)	(Unknown)	(Unknown)	(Unknown)
Revenue Reduction – Section 348.436 – Extension of Expiration Date For Agricultural Product Utility Contributor - p.34-36	Up to ($3,107,174) to ($6,000,000)	Up to ($3,107,174) to ($6,000,000)	Up to ($3,107,174) to ($6,000,000)	$0
Cost – Section 348.493.2 – Special Crop Lenders Tax Credit - p.40-41	Up to ($300,000)	Up to ($300,000)	Up to ($300,000)	$0
Cost - Section 348.500 - Increase in issuance of tax credits for the Family Farm Breeding Livestock tax credit program – p.41-42	(Less than $100,000)	(Less than $100,000)	(Less than $100,000)	(Less than $100,000)

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**Could exceed (\$2,256,766,436)**	**Less or More (\$11,218,034) Up to (\$40,053,907)**	**Less or More (\$11,221,292) Up to (\$40,057,165)**	**Could exceed (\$319,577,474)**
Estimated Net FTE Change on General Revenue	3 FTE	3 FTE	3 FTE	0 FTE
SCHOOL DISTRICT TRUST FUND				
Revenue Loss - §144.030 Modification of Farm Equipment Sales Tax Exemption - p.33-35	(Unknown)	(Unknown)	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND	**(Unknown)**	**(Unknown)**	**(Unknown)**	**(Unknown)**
PARKS AND SOILS STATE SALES TAX FUNDS				
Revenue Loss - §144.030 Modification of Farm Equipment Sales Tax - p.33-35	(Unknown)	(Unknown)	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON PARKS AND SOILS STATE SALES TAX FUNDS	**(Unknown)**	**(Unknown)**	**(Unknown)**	**(Unknown)**

CONSERVATION COMMISSION FUND				
Revenue Loss - §144.030 Modification of Farm Equipment Sales Tax Exemption - p.33-35	(Unknown)	(Unknown)	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND	**(Unknown)**	**(Unknown)**	**(Unknown)**	**(Unknown)**

FISCAL IMPACT – Local Government	FY 2023 (10 Mo.)	FY 2024	FY 2025	Fully Implemented (FY 2026)
LOCAL POLITICAL SUBDIVISIONS				
Revenue Loss - §144.030 Modification of Farm Equipment Sales Tax - p. 33-35	(Unknown)	(Unknown)	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	**(Unknown)**	**(Unknown)**	**(Unknown)**	**(Unknown)**

FISCAL IMPACT – Small Business

Numerous positive fiscal impacts to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

WOOD ENERGY TAX CREDIT

A tax credit for the production of certain wood-energy processed wood products expired on June 30, 2020. This act extends the tax credit until December 31, 2028. (Section 135.305)

MEAT PROCESSING FACILITIES TAX CREDIT

The Meat Processing Facility Investment Tax Credit for the expansion or modernization of meat processing facilities expired on December 31, 2021. This act extends such tax credit until December 31, 2028.

This act also modifies the definition of "taxpayer" to require that a taxpayer shall own a meat processing facility located in this state and employs a combined total of fewer than 500 individuals in all meat processing facilities owned by the individual in the United States.

Current law limits the total amount of tax credits that may be authorized in a calendar for the Meat Processing Facilities tax credit and the Qualified Beef tax credit to $2 million. This act allows $2 million in tax credits for the Meat Processing Facilities tax credit without regard for the amount of Qualified Beef tax credits issued. (Section 135.686)

ETHANOL FUEL TAX CREDIT

For all tax years beginning on or after January 1, 2023, this act authorizes a tax credit for retail dealers selling higher ethanol blend at the retail dealer's service station and distributors selling higher ethanol blend directly to the final user located in this state, as such terms are defined in the act. The credit shall be equal to five cents per gallon of higher ethanol blend sold and dispensed through metered pumps at the service station during the tax year. The tax credit shall be nontransferable and nonrefundable. The total amount of tax credits authorized under the act in a given fiscal year shall not exceed $5 million.

This act shall sunset on December 31, 2028, unless reauthorized by the General Assembly. (Section 135.755)

BIODIESEL RETAIL SALE TAX CREDIT

For all tax years beginning on or after January 1, 2023, this act authorizes a tax credit for retail dealers selling biodiesel blend at the retail dealer's service station and distributors selling biodiesel blend directly to the final user located in this state, as such terms are defined in the act. The credit shall be equal to two cents per gallon of biodiesel blend of between 5-10%, and five cents per gallon of biodiesel blend of between 10-20% sold and dispensed at the service station during the tax year.

Tax credits authorized by the act shall not be transferable but shall be refundable. The total amount of tax credits authorized under the act in a given fiscal year shall not exceed $16 million.

If the amount of tax credits claimed during the fiscal year exceed such amount, the tax credits shall be equally apportioned among the retail dealers claiming the credit by April 15 of such year.

This provision shall sunset on December 31, 2028, unless reauthorized by the General Assembly. (Section 135.775)

BIODIESEL PRODUCTION TAX CREDIT

For all tax years beginning on or after January 1, 2023, this act authorizes a tax credit for Missouri biodiesel producers in the amount of two cents per gallon of biodiesel fuel produced by such producer. To qualify for a tax credit, a biodiesel producer shall be a facility that produces biodiesel fuel, is registered with the U.S. Environmental Protection Agency as required by federal law, has begun construction or has been selling biodiesel fuel on or before the effective date of this act.

Tax credits authorized by the act shall not be transferable but shall be refundable. The total amount of tax credits authorized under the act in a given fiscal year shall not exceed $4 million. If the amount of tax credits claimed during the fiscal year exceed such amount, the tax credits shall be equally apportioned among the biodiesel producers claiming the credit by April 15 of such year.

This provision shall sunset on December 31, 2028, unless reauthorized by the General Assembly. (Section 135.778)

URBAN FARMS TAX CREDIT

For all tax years beginning on or after January 1, 2023, 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 establishing or improving an urban farm in an urban area, as such terms are defined in the act.

The tax credit shall not exceed $5,000 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 that may be authorized for all taxpayers for any given urban farm shall not exceed $25,000. The total amount of tax credits authorized under this act during a calendar year shall not exceed $200,000.

The Missouri Agriculture and Small Business Authority shall recapture the amount of tax credits issued to a taxpayer who, after receiving the tax credit, uses the urban farm for the personal benefit of the taxpayer instead of for producing agricultural food products used solely for distribution to the public by sale or donation.

This provision shall sunset after six years unless reauthorized by the General Assembly. (Section 135.1610)

ROLLING STOCK TAX CREDIT

This act reauthorizes a tax credit for eligible expenses incurred in the manufacture, maintenance, or improvement of a freight line company's qualified rolling stock, which expired on August 28, 2020. Such credit shall be reauthorized until December 31, 2028. (Section 137.1018)

INCOME TAXES

Current law provides for reductions to the top rate of income tax to an eventual rate of 4.8% over a period of years, contingent on meeting certain net general revenue collection triggers. This act adds three additional potential reductions in the top rate of tax to an eventual rate of 4.5%. Such additional reductions shall only be effective if 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 $250 million. Beginning in the first calendar year in which a reduction is made pursuant to this act, the amount of net general revenue collected required to reduce the top rate of tax shall be adjusted annually by the percent increase in inflation. (Section 143.011)

This act also authorizes a one-time tax credit for the 2021 tax year. Such tax credit shall be $325 for taxpayers filing single, married filing separately, or head of household, and with a Missouri adjusted gross income of less than $150,000. The tax credit shall be $650 for taxpayers filing married filing jointly and with a Missouri adjusted gross income of less than $300,000.

The tax credit shall be considered a refund of an overpayment of tax, and the Department of Revenue shall automatically apply such tax credit to a taxpayer's tax liability and remit a refund to a taxpayer no later than December 1, 2022.

This provision shall expire on December 31, 2023. (Section 143.803)

FARM MACHINERY SALES TAX EXEMPTION

The act modifies a sales tax exemption for certain farm machinery and equipment by providing that the term "farm machinery and equipment" shall include utility vehicles, as defined in the act, that are used for any agricultural purposes. (Section 144.030)

AGRICULTURAL PRODUCTION TAX CREDITS

Tax credits for contributions to the Missouri Agriculture and Small Business Development Authority and investments in new generation cooperatives for the purpose of development of agricultural business expired on December 31, 2021. This act extends such tax credits until December 31, 2028. (Section 348.436)

SPECIALTY AGRICULTURAL CROPS

This act establishes the "Specialty Agricultural Crops Act".

Under the act, the Missouri Agricultural and Small Business Development Authority (MASBDA) shall establish a specialty agricultural crops loan program for family farmers for purposes listed in the act.

To participate in the loan program, a family farmer, as defined in the act, shall first obtain approval for a specialty agricultural crops loan from a lender. Each family farmer shall be eligible for only one loan per family, and the maximum amount of the loan shall be $35,000.

Eligible borrowers shall follow conditions set forth in the act. Once a loan is approved by a lender, the loan shall be submitted to MASBDA for approval. Any eligible lender under the loan program shall be entitled to receive a tax credit equal to 100% of the amount of interest waived by the lender on a qualifying loan for the first year of the loan only.

MASBDA shall be responsible for the administration and issuance of the certificate of tax credits.

These provisions shall sunset after six years, unless reauthorized by the General Assembly. (Sections 348.491 and 348.493)

FAMILY FARMS ACT

In current law, "small farmer" is defined in the Family Farms Act as a farmer who is a Missouri resident and who has less than $250,000 in gross sales per year. This act changes the amount of gross sales to less than $500,000 per year.

The act repeals a provision that each small farmer is eligible for only one family farm livestock loan per family and for only one type of livestock.

Additionally, the maximum amount of the family farm livestock loan for each type of livestock under the act is as follows:

• Beef cattle: $150,000

• Dairy cattle: $150,000

• Swine: $70,000; and

• Sheep & goats: $60,000

This act contains an emergency clause.

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

<u>SOURCES OF INFORMATION</u>

Department of Revenue
Office of Administration – Budget & Planning
Department of Commerce and Insurance
Department of Natural Resources
Missouri Department of Transportation
Joint Committee on Administrative Rules
Office of the Secretary of State
City of Springfield
City of O'Fallon
City of Claycomo

Julie Morff
Director
September 19, 2022

Ross Strope
Assistant Director
September 19, 2022

BB:LR:OD