COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3669S.01I
Bill No.: SB 1178
Subject: Tax Credits; Economic Development; Department of Economic Development
Type: Original
Date: March 10, 2024

Bill Summary: This proposal establishes the Missouri Angel Investment Incentive Act.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2025	FY 2026	FY 2027	Fully Implemented (FY 2033)
Revenue Fund*	Less than ($192,753)	Could Exceed ($6,191,292)	Up to ($7,394,506)	Up to ($21,718,130)
Total Estimated Net Effect on General Revenue	**Less than ($192,753)**	**Could Exceed ($6,191,292)**	**Up to ($7,394,506)**	**Up to ($21,718,130)**

*Oversight notes, §348.273.3(3) notes a $6 million combine cap for the program in FY 2025 and FY 2026. Also, Oversight will reflect the new tax credit program up to its entirety each year with the 20% increase being applied continuously. Additionally, the above expenditures include the costs of (1) DOR and (1) DED FTE with one time DOR costs for necessary updates to the tax credit form, website, and database.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2025	FY 2026	FY 2027	Fully Implemented (FY 2033)
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**	**$0**

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2025	FY 2026	FY 2027	Fully Implemented (FY 2033)
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)				
FUND AFFECTED	FY 2025	FY 2026	FY 2027	Fully Implemented (FY 2033)
General Revenue – DOR	1 FTE	1 FTE	1 FTE	1 FTE
General Revenue – DED	1 FTE	1 FTE	1 FTE	1 FTE
Total Estimated Net Effect on FTE	**2 FTE**	**2 FTE**	**2 FTE**	**2 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 2025	FY 2026	FY 2027	Fully Implemented (FY 2033)
Local Government	**$0**	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Sections 348.273 & 348.274 Angel Investment Incentive Act

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

The proposed legislation creates the Missouri Angel Investment Incentive Act. Beginning January 1, 2024, a tax credit shall be allowed for forty-percent of an investor's cash investment of a qualified Missouri business. The Director of the Department of Economic Development and the Missouri Technology Corporation (MTC) shall not allow tax credits of more than $75,000 for a single business or a total of $300,000 in credits for a single year per investor. The legislation caps the tax credit at $6 million during calendar years 2024 or 2025, increasing by twenty-percent for each calendar year thereafter beginning January 1, 2026 and ending December 31, 2033. The program shall automatically sunset December 31, 2033 and terminate September 1, 2034. The bill also establishes 4 "Designated geographic regions" (DGR) described as such: Region 1 is the counties of Andrew, Bates, Benton, Buchanan, Cass, Clay, Clinton, DeKalb, Gentry, Henry, Holt, Jackson, Johnson, Lafayette, Platte, Ray, and Worth; Region 2 is the counties of Franklin, Jefferson, Lincoln, St. Charles, Warren, and St. Louis, and St. Louis City; Region 3 is all counties north of the Missouri River not in Region 1 or 2; Region 4 is all counties south of the Missouri River not in Region 1 or 2. During the first 6 months of each calendar year, MTC shall equally distribute the total amount of tax credits available to each of the 4 DGR. During the last 6 months of the calendar year, any remaining tax credits allocated to any DGR may be awarded by MTC to a qualified Missouri company located anywhere in the state.

B&P notes that the $6 million cap is shared between calendar years 2024 and 2025. Therefore, it is possible that the full $6 million may be authorized and redeemed for calendar year 2024 (FY 25) leaving no credits remaining for calendar year 2025 (FY 26). B&P further notes that the 20% annual increase to the tax credit cap is based on the amount of tax credits allowed in the previous year. This could result in no adjustment being allowed to the credit limit for calendar year 2025 (20% x $0 tax year 2024 credits authorized), even if the full $6 million in credits is authorized during the combined two year (2024 and 2025) period.

The following amounts may be allowed annually until the program ends after tax year 2032:
Calendar Year/(Fiscal Year) Cap.

2024 & 2025/ (FY25 & FY26) $6,000,000
2025(FY 2026)
2026/ (FY27) Up to $7,200,000
2027/ (FY28) Up to $8,640,000
2028/ (FY29) Up to $10,368,000
2029/ (FY30) Up to $12,441,600

2030/ (FY31) Up to $14,929,920
2031/ (FY32) Up to $17,915,904
2032/ (FY33) Up to $21,499,085
2033/ (FY34) Up to $25,798,902

Oversight notes that this proposal allows for no one company obtains more than $50,000 in credits per investor and that no investor receives more than $250,000 annually.

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

Beginning January 1, 2024, an investor who makes a cash investment in the qualified securities of a qualified Missouri business shall receive a tax credit worth 50% of the cash investment unless located in a neighborhood assistance zone then the credit is 70% of the contribution. This credit is to stop on December 31, 2033. The credit is not refundable but can be carried forward five years.

The Department of Economic Development (DED) and the Missouri Technology Corporation (MTC) are responsible for administration of this credit. They are to make sure that no one company gets more than $50,000 in credits per investor and that no investor receives more than $250,000 annually. This program has a $6 million annual cap in tax years 2024 and 2025. Each year thereafter, the cap will be 20% greater than the actual amount issued in the previous year. If all credits are issued annually, this could result in the following tax credit cap amounts in future years.

Tax Year	Fiscal Year Claimed	Cap
2024	FY 2025	($6,000,000)
2025	FY 2026	($6,000,000)
2026	FY 2027	($7,200,000)
2027	FY 2028	($8,640,000)
2028	FY 2029	($10,368,000)
2029	FY 2030	($12,441,600)
2030	FY 2031	($14,929,920)
2031	FY 2032	($17,915,904)
2032	FY 2033	($21,499,085)
2033	FY 2034	$0 program stopped

This proposal also allows any tax credits not issued in a year to be carried forward and given out in a future year, as long as it is before December 31, 2033 (stop day of the program). For the simplicity of the fiscal note, DOR will assume all credits are issued in their first year. This will be a loss to general revenue of the cap amount annually.

This proposal will become effective on August 28, 2024, but is allowing the tax credit to start on January 1, 2024. The first tax returns filed reporting the credit will be received starting on January 1, 2025.

These credits require the business to be an approve business by MTC. Additionally, MTC has to approve the distribution of the credits. MTC will issue certificates that the taxpayer can attach to the tax return to redeem the credit. MTC is allowed to charge a fee for the credits. DOR defers to MTC for the impact on the fee.

This will be a new tax credit that has to be added to the MO-TC form, DOR website and the individual income tax computer system. These changes are estimated to cost $8,923. DOR's existing tax credit staff is no longer able to take on any additional tax credits without additional resources. Due to the intensive knowledge of credits that is needed DOR is not able to use temporary staff to help with processing these returns. This proposal would require at least 1 FTE Associate Customer Service Rep at a salary of $35,880.

Officials from the DOR assume the need for 1 FTE Associate Customer Service Representative and one-time costs for DOR website and the individual income tax computer system in FY 2025. Oversight does not have any information to the contrary. Therefore, **Oversight** will reflect the DOR FTE impact in the fiscal note.

Oversight notes that the proposal, §§348.273.3. (3), requires that all the tax credits issued in previous year must be utilized in order for the 20% increase to occur. Therefore, for purposes of this fiscal note, Oversight will assume a continuous 20% increase occurring each year after FY 2026.

Oversight notes that the proposal, §§348.273.3. (3), allows for the unissued tax credits to be carried over for issuance in any future year, but before December 31, 2033.

Additionally, §§348.273.3. (3) only allows for $6 million dollars to be awarded on or after January 1, 2024, and ending on or before December 31, 2025 (FY 2025 & FY 2026). Therefore, Oversight, for purpose of the fiscal note, will show the first $6 million dollars being all exhausted in FY 2026.

Oversight notes that could result in tax credit issued each year, after FY 2025, exceeding the totals provided by the DOR and B&P. Therefore, Oversight will reflect the B&P estimated amount could exceed the value shown in above table in the fiscal note.

Officials from the **Department of Economic Development (DED)** note:

Section 348.273, creates the Missouri Angel Investment Incentive Act. The tax credit program is primarily administered by MTC (Missouri Technology Corporation). DED's role is to process and issue tax credits.

The program requires annual qualification of Missouri business by the Missouri Technology Corporation (MTC) to be eligible for the allocation of tax credits equal 50% of each investor's cash investment in that business. Such tax credits shall be allocated to those qualified Missouri businesses that, as determined by MTC, are most likely to provide the greatest economic benefit to the region or the state, or both. The MTC may allocate, and the department may issue, whole or partial tax credits in accordance with the report issued to the director of the department based on MTC's assessment of the qualified Missouri businesses.

Each year, tax credits shall be reserved for equal distribution among the congressional districts and for equal distribution each quarter of the year. Any unissued tax credits each quarter become available for equal distribution among the regions, until the fourth quarter, when they can be used for any region.

Following allocation by MTC and the cash investment in a qualified security of a qualified Missouri business by an investor, DED is authorized to issue tax credits to qualified investors in such qualified Missouri businesses and may issue whole or partial tax credits in accordance with MTC's assessment of the qualified Missouri businesses.

This program shall automatically sunset December 31, 2033, unless reauthorized by an act of the general assembly.

Authorizing the tax credit program will likely reduce annual TSR by up to the annual cap in the amount of $6,000,000 for January 1, 2024 to December 31, 2025. For each tax year thereafter, the total amount of tax credits shall be increased by twenty percent, if exhausted the previous year. The balance of unissued tax credits may be carried over for issuance in future years until December 31, 2033. DED notes the qualification and award of projects will be administered by the Missouri Technology Corporation. DED will need to hire 1.0 FTE to administer the program's issuance of tax credits.

Oversight notes the DED assume the need for 1 FTE (Senior Economic Development Specialist at $74,664 annually in the fiscal note beginning FY 2025 to properly administer the tax credit. Oversight does not have any information to the contrary. Therefore, Oversight will reflect the costs for 1 FTE impact in the fiscal note.

DED, in additional correspondence via a-mail, states the MTC is a nonprofit created in statute and governed by a 15-member board under Section 348.275, RSMo. They have a separate, private bank account, so the funds from the 4% fee would be collected by MTC into their private account. The money collected in fees would not go into any state fund per the proposed legislation.

Officials from the **Oversight Division** state they are responsible for providing a Sunset Report pursuant to Section 23.253 RSMo; however, Oversight is able to absorb the cost with the current budget authority.

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 2025 (10 Mo.)	FY 2026	FY 2027	Fully Implemented (FY 2033)
GENERAL REVENUE				
Cost – Section 348.273 - "Missouri Angel Investment Incentive Act Tax Credit"	$0	Up to ($6,000,000)	Up to ($7,200,000)	Up to ($21,499,085)
Costs – DED - Section 348.273 – Administrating the program				
Personnel Service	($62,220)	($76,157)	($77,680)	($87,480)
Fringe Benefits	($36,632)	($44,538)	($45,128)	($50,821)
Expense & Equipment	($17,871)	($4,492)	($4,582)	($5,160)
Total Costs – DED p.6	($116,723)	($125,187)	($127,390)	($143,462)
FTE Change	1 FTE	1 FTE	1 FTE	1 FTE
Costs – DOR - Section 348.273 – processing of tax credit forms				
Personnel Service	($29,900)	($36,598)	($37,330)	($42,040)
Fringe Benefits	($23,896)	($28,937)	($29,204)	($32,888)
Expense & Equipment	($13,311)	($570)	($582)	($655)
Total Costs – DOR p.5	($67,107)	($66,105)	($67,116)	($75,584)
FTE Change	1 FTE	1 FTE	1 FTE	1 FTE
Costs - DOR - Section 348.273 Update of form and website	($8,923)	$0	$0	$0

FISCAL IMPACT – State Government	FY 2025 (10 Mo.)	FY 2026	FY 2027	Fully Implemented (FY 2033)
ESTIMATED NET EFFECT ON GENERAL REVENUE	**Less than ($192,753)**	**Less than ($6,191,292)**	**Up to ($7,394,506)**	**Up to ($21,718,130)**
Estimated Net FTE Change on General Revenue	2 FTE	2 FTE	2 FTE	2 FTE

FISCAL IMPACT – Local Government	FY 2025 (10 Mo.)	FY 2026	FY 2027	Fully Implemented (FY 2033)
	$0	**$0**	**$0**	**$0**

FISCAL IMPACT – Small Business

A direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

This act establishes the Missouri Angel Investment Incentive Act.
For all tax years beginning on or after January 1, 2024, this act allows an investor, as defined in the act, to claim a tax credit in an amount equal to fifty percent of the investor's investment in the qualified securities of a qualified Missouri business, as defined in the act, or seventy percent of the investor's investment if the qualified Missouri business is located in certain rural communities, as described in the act. If the amount of the tax credit exceeds the investor's tax liability in any one tax year, the credit may be carried forward for up to five subsequent tax years. No investor shall receive more than fifty thousand dollars in tax credits in a single year for contributions to a single qualified Missouri business, and shall not receive more than two hundred fifty thousand dollars in tax credits in total in a single tax year. A tax credit may be transferred by a qualified investor. The total amount of tax credits authorized in a single tax year by the Missouri Technology Corporation (MTC) shall not exceed six million dollars for the 2024 and 2025 tax years. Thereafter, the maximum amount of tax credits that may be authorized shall be increased annually by 20%, provided that the maximum amount of tax credits was authorized in the previous year.

To be designated as a qualified Missouri business, a business shall apply to the MTC, as described in the act. The designation of a business as a qualified Missouri business shall be made annually by the MTC. In addition to other requirements described in the act, a qualified Missouri business shall not have had annual gross revenues of more than five million dollars in the most recent tax year of the business, and the business shall not have been in operation longer than five years if the business is not a bioscience business, or longer than ten years if the business is a bioscience business.

The MTC shall annually review the activities undertaken by this act to ensure they are in compliance with the provisions of the act. If the MTC determines that a business is not in substantial compliance, it may inform the business that such business will lose its designation if it does not come into compliance within one hundred twenty days. If the business does not come into compliance, the MTC may revoke its designation. If a business loses its designation as a qualified Missouri business, it shall be precluded from being allocated any additional tax credits. However, investors in such a business shall be entitled to keep all of the tax credits properly issued prior to the loss of designation by the business.

The MTC shall report certain information annually, as described in the act, to the Department of Economic Development, the Governor, the President Pro Tempore of the Senate, and the Speaker of the House of Representatives.

This act shall sunset on December 31, 2033, unless reauthorized by the General Assembly.

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

<u>SOURCES OF INFORMATION</u>

Department of Economic Development
Department of Revenue
Office of Administration – Budget & Planning
Oversight Division
Office of the Secretary of State
Joint Committee on Administrative Rules

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March 10, 2024

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