

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 4131S.01I  
 Bill No.: SB 876  
 Subject: Tax Credits; Railroads  
 Type: Original  
 Date: January 18, 2024

Bill Summary: This proposal authorizes a tax credit for certain railroad infrastructure investments.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
General Revenue Fund*	\$0	Up to (\$14,868,787)	Up to (\$14,824,054)
<b>Total Estimated Net Effect on General Revenue</b>	<b>\$0</b>	<b>Up to (\$14,868,787)</b>	<b>Up to (\$14,824,054)</b>

\*Oversight has shown the potential tax credit issuances & redemptions up to the maximum cap (\$14.5 million annually) under the proposal plus additional FTE for the Department of Economic Development and Department of Revenue.

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: () indicate costs or losses.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2025</b>	<b>FY 2026</b>	<b>FY 2027</b>
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>			
<b>FUND AFFECTED</b>	<b>FY 2025</b>	<b>FY 2026</b>	<b>FY 2027</b>
General Revenue Fund - DOR	0 FTE	1 FTE	1 FTE
General Revenue Fund – DED	0 FTE	Up to 2 FTE	Up to 2 FTE
<b>Total Estimated Net Effect on FTE</b>	<b>0 FTE</b>	<b>Up to 3 FTE</b>	<b>Up to 3 FTE</b>

- 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.

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2025</b>	<b>FY 2026</b>	<b>FY 2027</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

## FISCAL ANALYSIS

### ASSUMPTION

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

The proposed legislation would authorize tax credits for all tax years beginning on January 1, 2025, but ending on or before December 31, 2028, to any railroads for qualified railroad expenditures or qualified new rail infrastructure expenditures completed. Subsection 1235.1210.4 requires the Department of Economic Development to determine if a taxpayer meets the requirements under this subsection, they must issue a numbered and date of eligibility certificate to the eligible taxpayer. Subsection 135.1210.3 requires a qualified taxpayer to submit a certificate of eligibility to the department after completion of eligible rail infrastructure expenditures. Subsection 135.1210.5(1) states the cumulative amount of tax credits for qualified railroad track expenditures shall not exceed four million five hundred thousand dollars per tax year. Subsection 135.1210.5(2) states the cumulative amount of tax credits for qualified rail infrastructure expenditures shall not exceed ten million dollars per tax year. If tax credits claimed exceed these amounts, tax credits will be allowed in the order in which they're claimed and any tax credit allowed that exceeds the eligible taxpayer's state liability may be carried forward for up to five subsequent tax years. The tax credit will sunset on December 31, 2029, unless reauthorized. If the credit is reauthorized, it will sunset twelve years after the effective date. The tax credit will terminate on September 1 of the calendar year immediately following the calendar year it sunsets.

Therefore, the fiscal impact to TSR is up to \$14,500,000 per fiscal year.

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

Starting January 1, 2025, this proposal creates two tax credits regarding railroads.

Railroad Track Expenditures where tax credits shall be allowed to a taxpayer for qualified railroad track expenditures. The taxpayer's tax credit shall not exceed an amount equal to the product of five thousand dollars multiplied by the number of miles of railroad track owned or leased in the state by any railroad as of the close of the calendar year. For all qualified taxpayers they will share a cap of \$4,500,000 per calendar year.

New Railroad Infrastructure Expenditures

The second credit is for qualified new rail infrastructure expenditures. This credit will be capped at \$1,000,000 for each rail-served customer project. For all qualified taxpayers claiming the new rail infrastructure expenditure credit, the total amount of all tax credit shall not exceed the cap of \$10,000,000 per calendar year.

If each cap is met, the credits will be issued based on the order they are received. The credits are not refundable but can be carried forward up to 5 subsequent calendar years. These credits are also transferrable. These credits will automatically sunset December 31, 2031.

These credits are allowed to be transferred. In the event that after the transfer, the department of revenue determines that the amount of credit properly available under this section is less than the amount claimed by the transferor of the credit or that the credit is subject to recapture, the department shall assess the amount of overstated or recaptured credit as taxes due from the transferor and not the transferee.

This proposal would become effective on January 1, 2025, and the first time the returns claiming the credits can be filed are January 1, 2026 (FY 2026). These credits will result in a loss to general revenue of \$14,500,000 annually.

Fiscal Year	Loss to General Revenue
2025	\$0
2026	(\$14,500,000)
2027	(\$14,500,000)
2028+	(\$14,500,000)

This proposal creates two new tax credit programs that will require two new lines being added to the Form MO-TC (\$7,138), updates to DOR's website and changes to the individual income tax computer system (\$1,785). 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.

**Oversight** notes the officials from the DOR assume the need for 1 FTE (Associate Customer Service Representative at \$35,880 annually) beginning FY 2026. Therefore, Oversight will note the DOR's FTE in the fiscal note.

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

Section 135.1210 creates a "tax credit for railroad infrastructure investments".

The Tax Credit will likely reduce annual TSR by \$4.5M for qualified railroad expenditures and \$10.0M for new rail infrastructure expenditures, up to the annual total cap in the amount of \$14,500,000 per year through December 31 six years after the effective date.

Tax credits authorized shall be equal to fifty percent of an eligible taxpayer's qualified railroad expenditures and qualified new rail infrastructure expenditures, provided that, for qualified railroad expenditures, the amount of the tax credit shall not exceed an amount equal to the product of five thousand dollars multiplied by the number of miles of railroad track owned or

leased in the state by the eligible taxpayer as of the close of the tax year in which the tax credit is claimed and for qualified new rail infrastructure expenditures, the amount of the tax credit shall not exceed one million dollars for each new rail-served customer project of the eligible taxpayer.

The proposal applies to tax years beginning on or after January 1, 2025. The program will automatically sunset on December 31, six years after the effective date unless reauthorized by an act of the general assembly.

DED is requesting 2.0 FTE Senior Economic Development Specialists to administer the act.

**Oversight** notes the proposal, specifically Section 135.1210 1. (5) (a), allows for an amount equal to fifty percent of an eligible taxpayer's qualified railroad track expenditures or qualified new rail infrastructure expenditures up to \$5,000 dollars per mile or \$500,000 per each new project.

**Oversight** notes subdivision 5 (1) states expenditures shall not exceed \$4.5 million and includes: gross expenditures for new rail infrastructure by an eligible taxpayer, which includes the construction of new track infrastructure such as industrial leads, switches, spurs, sidings, rail loading docks, and transloading structures involved with servicing new customer locations or expansions by any railroad located in Missouri.

**Oversight** notes subdivision 5 (2) shall not exceed \$10 million and includes: gross expenditures for maintenance, reconstruction, or replacement of railroad infrastructure, including track, roadbed, bridges, industrial leads and sidings, and track-related structures owned or leased by any railroad located in Missouri.

**Oversight** notes according to the [DED research on this subject](#) Missouri is home to 19 railroads operating on nearly 4,400 miles of track, 2,500 miles of yard track, and about 7,000 public and private crossings.

**Oversight** notes DED requested two additional FTE (Senior Economic Development Specialists) in order to assure compliance and administration of the act. However, Oversight notes the amount of projects or taxpayers applying for this specific tax credit could be potentially lower than shown above. Therefore, **Oversight** will reflect a range of Up to 2 FTE in the fiscal note.

Lastly, **Oversight** will note the maximum utilization of the tax credit up to \$14.5 million beginning in FY 2026 in the fiscal note.

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 FY2025 and FY2026 as a result of the creation of tax credit for qualified railroad infrastructure investments. 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.

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. However, should multiple bills pass that would require additional updates to the premium tax database, the department may need to request more expense and equipment appropriation through the budget process.

**Oversight** assumes DCI is provided with core funding to handle a certain amount of activity each year. Oversight assumes DCI 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. Therefore, Oversight will note zero impact for DCI for purpose of this fiscal note.

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

#### 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.

<u>FISCAL IMPACT – State Government</u>	FY 2025 (10 Mo.)	FY 2026	FY 2027
<b>GENERAL REVENUE FUND</b>			
<u>Cost</u> – Section 135.1210.5(1) – Railroad Track Expenditures Tax Credit p.4,5	\$0	Up to (\$4,500,000)	Up to (\$4,500,000)
<u>Cost</u> – Section 135.1210.5(2) – New Railroad Infrastructure Tax Credit p.4,5	\$0	Up to (\$10,000,000)	Up to (\$10,000,000)
<u>Cost</u> – DED – Section(s) 135.1210 1. (5) (1) & (2)(p. 5)		Up to..	Up to..
Personnel Service	\$0	(\$152,315)	(\$155,361)
Fringe Benefits	\$0	(\$88,153)	(\$89,292)
Expense & Equipment	\$0	(\$40,446)	(\$12,285)
<u>Total Costs</u> – DED	<u>\$0</u>	<u>(\$280,914)</u>	<u>(\$256,938)</u>
FTE Change	0 FTE	2 FTE	2 FTE
<u>Cost</u> – DOR – Section(s) 135.1210 1. (5) (1) & (2)(p. 5)			
Personnel Service	\$0	(\$36,598)	(\$37,330)
Fringe Benefits	\$0	(\$28,937)	(\$29,204)
Expense & Equipment	\$0	(\$22,338)	(\$582)
<u>Total Costs</u> – DOR	<u>\$0</u>	<u>(\$87,873)</u>	<u>(\$67,116)</u>
FTE Change	0 FTE	1 FTE	1 FTE
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE</b>	<b><u>\$0</u></b>	<b><u>Up to (\$14,868,787)</u></b>	<b><u>Up to (\$14,824,054)</u></b>
Estimated Net FTE Change on General Revenue	0 FTE	Up to 3 FTE	Up to 3 FTE

<u>FISCAL IMPACT – Local Government</u>	FY 2025 (10 Mo.)	FY 2026	FY 2027
	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>

FISCAL IMPACT – Small Business

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

### FISCAL DESCRIPTION

For all tax years beginning on or after January 1, 2025, this act authorizes a tax credit in the amount of fifty percent of an eligible taxpayer's qualified railroad expenditures and qualified new rail infrastructure expenditures. "Qualified railroad expenditures" are defined as gross expenditures for maintenance, reconstruction, or replacement of railroad infrastructure, as described in the act. "Qualified new rail infrastructure expenditures" are defined as gross expenditures for new rail infrastructure, as described in the act.

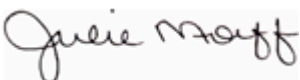
A tax credit for qualified railroad expenditures shall not exceed \$5,000 multiplied by the number of miles of railroad track owned or leased in the state by a railroad, and the total amount of tax credits for qualified railroad expenditures authorized in a calendar year shall not exceed \$4.5 million. A tax credit for qualified new rail infrastructure expenditures shall not exceed \$1 million for each new rail-served customer project, and the total amount of tax credits for qualified new rail infrastructure expenditures authorized in a calendar year shall not exceed \$10 million.

An eligible taxpayer shall submit a certificate of eligibility to the Department of Economic Development after the completion of the qualified railroad expenditures or qualified new rail infrastructure expenditures.

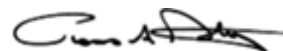
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

### SOURCES OF INFORMATION

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



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