

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3709S.08P
Bill No.: Perfected SS for SCS for SB 931
Subject: Taxation and Revenue - Income; Corporations; Campaign Finance
Type: Original
Date: April 7, 2022

Bill Summary: This proposal modifies provisions relating to corporations.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2023	FY 2024	FY 2025	Fully Implemented (FY 2028)
General Revenue	(\$1,620,257) to (Unknown)	Up to (\$11,926,124) to (Unknown)	Up to (\$11,646,428) to (Unknown)	Up to (\$11,587,325) to (Unknown)
Total Estimated Net Effect on General Revenue	(\$1,620,257) to (Unknown)	Up to (\$11,926,124) to (Unknown)	Up to (\$11,646,428) to (Unknown)	Up to (\$11,587,325) to (Unknown)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2023	FY 2024	FY 2025	Fully Implemented (FY 2028)
Missouri Disaster Fund *	\$0	\$0	\$0	\$0
Technology Trust Fund	\$180	\$216	\$224,032	\$274,525
School District Trust Fund **	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
Conservation Commission Fund**	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
Parks and Soils State Sales Tax Fund(S) **	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
Total Estimated Net Effect on <u>Other</u> State Funds	\$180 to (Unknown)	\$216 to (Unknown)	\$224,032 to (Unknown)	\$274,525 to (Unknown)

* §347.020 Transfer-in and expenses net to zero.

** §620.1039.5 - The provision provides for a sales tax exemption for research equipment.

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2023	FY 2024	FY 2025	Fully Implemented (FY 2028)
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)				
FUND AFFECTED	FY 2023	FY 2024	FY 2025	Fully Implemented (FY 2028)
General Revenue - DED	1 FTE	1 FTE	1 FTE	1 FTE
General Revenue - DOR	0 FTE	3 FTE	3 FTE	3 FTE
Total Estimated Net Effect on FTE	1 FTE	Up to 4 FTE	Up to 4 FTE	Up to 4 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 2028)
Local Government	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)

FISCAL ANALYSIS

ASSUMPTION

Oversight was unable to receive some of the agency responses in a timely manner due to the short fiscal note request time. Oversight has presented this fiscal note on the best current information that we have or on prior year information regarding a similar bill. Upon the receipt of agency and local responses, Oversight will review to determine if an updated fiscal note should be prepared and seek the necessary approval to publish a new fiscal note.

Section 30.267 Retirement System Investments (SA 3)

Officials from **Office of Administration - Budget and Planning (B&P)** note this section would prohibit any retirement system established by the state or political subdivision from investing in Russian assets. Any such retirement system that currently has such investments must cancel or divest those investments by December 31, 2022.

B&P notes this provision will not impact TSR or the calculation under Article X, Section 18(e).

In response to a similar proposal from the 2022 session, SB 1239, officials from the **Missouri Department of Transportation and Highway Patrol Employees Retirement Systems (MPERS)** noted the system has no direct investments in Russia. They also noted that monitoring other legal entities investing or doing business with Russia will cause an indeterminate cost to MPERS.

In response to a similar proposal from the 2022 session, SB 1239, officials from the **City of Kansas City (CKC)** suggested the proposal could cause an indeterminate loss to CKC. They noted that CKC's retirement systems hire investment managers and do not dictate or instruct those managers.

In response to a similar proposal from the 2022 session, SB 1239, officials from the **City of Springfield** stated that the proposal would not have a fiscal impact on the City.

Oversight notes that the proposal does not require immediate divestments or cancellation of contracts ("...as soon as prudently possible."); therefore Oversight will show no fiscal impact for this section.

Section 44.032 Flood Control

Officials from the **Department of Public Safety - State Emergency Management Agency (SEMA)** assume this provision will have a fiscal impact on SEMA and could require a substantial amount of general revenue. SEMA notes while there has been ongoing discussion regarding obligation of funds for the "Missouri Disaster Fund", there is currently no general revenue obligated to the fund.

As an example of a potential fiscal impact on SEMA, Missouri recently received a new Major Presidential Disaster Declaration, FEMA-4636-DR-MO, for severe storms and tornadoes that occurred on December 10, 2021. The Major Presidential Disaster Declaration is designated for seven (7) counties and has eight (8) eligible applicants under the FEMA Public Assistance Program. Seven (7) of the eight (8) eligible applicants are Rural Electric Coops. FEMA has estimated the disaster damages for FEMA-4636-DR-MO at \$27.3 million. All of the \$27.3 million in estimated damages belong to the Rural Electric Coops with the exception of \$63,000, which is road and debris damages in Reynolds County.

Officials from **Office of Administration - Budget and Planning (B&P)** note this section would allow rural electric cooperative to access disaster and emergency related funding. B&P defers to SEMA for an impact from this provision.

Oversight assumes, based on SEMA's response, that General Revenue funds will be used to cover expenses under §44.032. Oversight will reflect a \$0 to (Unknown, Greater than \$250,000) impact to General Revenue and will assume that expenses to the Missouri Disaster Fund will equal the amount transferred in from General Revenue and net to zero. Oversight notes as of February 2022, the balance in the Missouri Disaster Fund is \$638,477.

In response to similar legislation (HCS for HB 2328), officials from the **Department of Commerce and Insurance**, the **Department of Economic Development**, the **Department of Natural Resources**, the **Missouri Department of Conservation**, the **Missouri Department of Transportation**, the **Office of Administration**, the **Hughesville Water/Wastewater**, the **Little Blue Valley Sewer District**, the **Metropolitan St. Louis Sewer District**, the **South River Drainage District**, the **Wayne County PWS #2**, and the **Hancock Street Light District** each assume the provision will have no fiscal impact on their respective organizations.

In response to similar legislation (HCS HB # 2328), officials from **Morgan County PWS #2** responded to the legislation but did not provide a fiscal impact.

Oversight does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for this section.

Section 130.029 LLC Political Contributions (SA 1)

Officials from **Office of Administration - Budget and Planning (B&P)** note this section would allow limited liability companies (LLCs) to make political contributions. Section 130.029.4(2) requires LLCs be operational for at least one year prior any contributions and to file a form with the Missouri Ethics Commission.

B&P notes that SA2 removes all references to S-Corporations and the definition of "corporation" under Section 130.029.4(3).

This provision will not impact TSR or the calculation under Article X, Section 18(e).

Officials from the **Department of Revenue (DOR)** note this provision allows a limited liability company that is not classified as a corporation, to make contributions to any candidate committee. This will not have a fiscal impact on the Department.

Oversight notes officials from the Department of Revenue and the Office of Administration - Budget and Planning both assume this provision will have no fiscal impact on state and local funds. **Oversight** does not have any information to the contrary.

Section 143.081 Tax Credit for S-Corporation

Officials from **Office of Administration - Budget and Planning (B&P)** note this provision would grant a tax credit for S-Corporation shareholders for income earned outside of Missouri, if the income earned out of state is not subject to income taxes in the state in which it was earned. The tax credit shall be equal to the shareholders proportion of Missouri income tax owed on such out of state S-Corporation income. This credit would begin on August 28, 2022. Since this is before the end of the 2022 tax year, B&P assumes that the credit would be available for taxpayers filing their annual 2022 tax returns.

B&P notes that shareholders are already allowed a resident income tax credit if income earned out of state is subject to another state's income tax. B&P further notes that this would essentially eliminate the Missouri tax on all out of state income earned by any S-Corporation, if that income is not subject to any other state's income tax.

Based on information provided by DOR, for tax year 2018 fewer than 1% of S-Corporations claimed out-of-state income. However, B&P was unable to determine how much of such S-Corporations income was derived from out-state-sources and how much of that income came from other states that do not levy an income tax. Therefore, B&P estimates that this provision will have an unknown negative impact on TSR and GR beginning in FY23.

Officials from the **Department of Revenue (DOR)** note this provision would allow a resident shareholder in an S-Corp to be eligible for a credit issued pursuant to this section in an amount equal to the shareholder's pro rata share of any income tax imposed pursuant to Chapter 143 on income derived from sources in another state of the United States, or a political subdivision thereof, or the District of Columbia, and which is subject to tax pursuant to Chapter 143 but is not subject to tax in such other jurisdiction.

S-Corps are required to file a MO-1120S (S-Corporation Income Tax Return) with the Department of Revenue annually. One of the questions on the form requires S-Corps to disclose if any of the income they receive is from sources other than those located in Missouri. Of the 87,907 S-Corps that completed the 2018 MO-1120S form less than 1% indicated income outside Missouri.

The Department is unable to estimate the amount of the income that was reported as out of the state. Additionally, the Department cannot determine if any of that income is from jurisdictions that do not tax. The Department assumes an unknown impact that could exceed \$250,000 annually.

No administrative fiscal impact is expected to the Department from this provision.

Oversight is unable to estimate the amount of out of state income reported. Therefore, **Oversight** will show a negative unknown impact that could exceed \$250,000 annually for this section.

Section 143.121 – Medical Marijuana Business Expense Deduction

Officials from **Office of Administration - Budget and Planning (B&P)** note this provision would allow medical marijuana related business to deduct business expenses from their Missouri adjusted gross income. B&P notes that this provision would begin August 28, 2022, which is during tax year 2022. Therefore, B&P assumes that this deduction would become available for taxpayers for tax year 2022. B&P notes that tax year 2022 returns would not be filed until April 2023. Therefore, B&P estimates that this provision could reduce GR beginning in FY23.

B&P notes that typically businesses are allowed to deduct certain expenses from their federal adjusted gross income (FAGI). Those deductions would then flow through to the business's Missouri adjusted gross income (MAGI) allowing for an implicit deduction from Missouri's income tax. However, because marijuana is a controlled substance at the federal level, marijuana related businesses are not allowed to deduct their business expenses on their federal taxes. This would allow such businesses to receive the business expense deduction at the state level.

B&P was unable to obtain enough revenue, cost, or profit margin data for medical marijuana related businesses to estimate the GR impact from this provision. Therefore, B&P estimates that this provision will reduce TSR and GR by an unknown, but significant, amount beginning with FY23.

Officials from the **Department of Revenue (DOR)** note this provision would allow medical marijuana businesses a subtraction from the federal adjusted gross income the amount that would have been allowed from the computation of the taxpayer's federal taxable income if the income were not disallowed solely from them being a medical marijuana business. Under federal law marijuana is a controlled substance and businesses selling it are not allowed some deductions that other businesses are entitled to. Since marijuana is allowed to be sold in Missouri, this would allow them to adjust their federal adjusted gross income before calculating their Missouri adjusted gross income.

This would require the Department to make an independent interpretation of federal law on what would or would not be an allowable federal deduction. The Department is unable to calculate the amount of income and deductions that these businesses could possibly be allowed to deduct under this provision. The Department assume this could result in an Unknown that could be a significant negative fiscal impact to general revenue and total state revenue.

This bill would become effective August 28, 2022, and with no specific start date it would allow people to start filing for this immediately. Therefore, DOR will show the impact starting in FY 2023.

This would require a change to the MO-A and the MO-1120 forms. The Form MO-A has a selection of check boxes for a set of “other” subtractions, so a new line would not necessarily be required. The Form MO-1120 does not currently have this checkbox option, so it would either require a new line or a reformatting of the subtractions in Part 2.

Additionally, this would require the DOR to update the individual income tax computer system. These changes are estimated to cost \$11,579.

The Department notes it may need the following FTE if the volume of returns justify the FTE.

- 1 FTE Revenue Processing Technician for every 14,700 errors created
- 1 FTE Revenue Processing Technician for every 5,700 pieces of correspondence generated
- 1 temporary employee for new line item

Oversight assumes the Department of Revenue is provided with core funding to handle a certain amount of activity each year. Oversight assumes DOR could absorb the costs for computer upgrades related to this provision. Given the few number of potential qualifiers of this deduction, Oversight assumes DOR can absorb the administrative impact of this provision.

In response to similar legislation (Perfected SS for SB 807), officials from the **Department of Health and Senior Services** state as of January 7, 2022, the number of medical marijuana facilities approved to operate in Missouri were as follows:

- Testing Labs – 8
- Cultivation – 41
- Manufacturing – 58
- Dispensary – 181
- Transportation – 20

Oversight notes that it does not currently have the resources and/or access to state tax data to produce an independent estimate to the GR impact from this provision. **Oversight** notes that the bill becomes effective August 28, 2022. Therefore, **Oversight** will show a reduction to TSR and GR by an unknown, but possibly significant, amount beginning with FY23.

In response to similar legislation (SB 807), officials from the **Department of Health and Senior Services** assume the provision 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 this organization for this section.

Section 143.436 "SALT Parity Act"

Officials from **Office of Administration - Budget and Planning (B&P)** note this provision would allow pass-through businesses (LLCs, partnerships, sole proprietorships, and S-corporations) to file their Missouri income tax at the entity level, rather than the individual level starting with tax year 2023. B&P notes that the election to complete an entity level tax return shall be made on a voluntary year-by-year basis.

B&P notes that the purpose of this bill is to allow businesses to fully deduct their state and local taxes (SALT) at the federal level, while minimizing the impact to states that pass this or similar language. Under the Tax Cut and Jobs Act (TCJA, 2017) individuals cannot claim a SALT deduction greater than \$10,000, while businesses can claim their full SALT expenses. This has created a significant federal tax increase for pass-through businesses whose SALT deduction is greater than the \$10,000 cap x the number of pass-through members. For example:

- Business A consists of 4 members and has a total SALT liability of \$20,000
 - Business A would not be impacted by the individual SALT limitation as the combined SALT limit for the 4 members would be \$40,000 (4 members x \$10,000 per member cap).
 - Business A would likely not choose to file taxes at the entity level under this provision.
- Business B consists of 4 members and has a total SALT liability of \$80,000
 - Business B would be impacted by the individual SALT limitations as the combined SALT limit of \$40,000 (4 members x \$10,000 per member cap) is less than the \$80,000 entity SALT liability.
 - Business B would likely chose to file taxes at the entity level under this provision.

B&P further notes that as of the creation of this fiscal note, the IRS is allowing this particular SALT cap work around. If the IRS disallows this work around, B&P assumes that entities would no longer choose to file a Missouri return at the entity level.

Currently each member of a pass-through business must file their own Missouri income tax return showing their portion of business income and deductions. The individual is then responsible for their portion of the Missouri income tax. Individuals are also granted a tax credit for taxes paid in other states, for businesses that operate in multiple states.

Under this provision, the entity itself could elect to file a Missouri income tax return. The business is to include the same income, deductions, and credits granted at the federal level. If the calculations result in a net loss, the loss is not refundable, but the business may carry the loss forward until fully used. B&P notes that individuals are not granted a similar net operating loss credit. Therefore, this provision may have an unknown impact on TSR and GR.

B&P notes that businesses would be required to use the corporate income allocation method, as opposed to the current individual allocation method, when determining the amount of income to allocate to Missouri and other states. Therefore, this provision may have an unknown positive or negative impact to TSR and GR depending on the composition of a business's income.

In exchange for filing at the entity level, the entity must calculate their tax due using the highest individual income tax under Section 143.011 in a given tax year. Currently individuals calculate their tax due using the graduated brackets and rates under Section 143.011. This may have minimal impact to TSR and GR.

This provision would allow non-Missouri residents, with no other Missouri source income other than the income now reflected at the entity level, to not file a Missouri income tax return.

This provision would further grant Missouri residents, and non-residents with other Missouri source income, a 95% tax credit for their pro-rata share of the taxes paid to other states at the entity level. B&P notes that this provision would allow a 100% credit for S-corporations. This credit would only be granted for the taxes paid at the entity level to other states. This may have an unknown impact to TSR and GR. B&P notes that the impact would depend on the impacts created by changing how business income is allocated between states. The credit is non-refundable, but may be carried forward until fully used.

B&P does not know how many businesses would elect to pay Missouri taxes at the entity level. Further, B&P does not know the income composition of such businesses or the current tax liability of members and thus cannot estimate how this provision may impact their Missouri tax liability. Therefore, B&P estimates that this provision may have an unknown positive or negative impact on TSR and GR beginning with FY24.

Officials from the **Department of Revenue (DOR)** note under the Tax Cut and Jobs Act (2017) the federal government limited the amount of state and local taxes (SALT) an individual could deduct for federal income tax purposes to no more than \$10,000 (\$5,000 for those married filed separately) annually. However, there were no changes to the limitations on the amount of a deduction connected with a business entity directly.

Capping the amount of the SALT deduction at the federal level resulted in fewer taxpayers being able to reduce their federal tax liability.

Under current law a pass-through entity's (S Corporations or Partnership) shareholders pay income tax on the shareholder's pro rata share of the entity's income attributable to Missouri. They file their share on their individual income tax return rather than the business entity filing a corporate income tax return. Therefore, each member reports their proportion of the entity's whole income. Therefore, each of the individual members is subject to the \$10,000 SALT limit on their return.

This provision creates the SALT Parity Act. The purpose of the act is to help companies increase the amount of itemized deductions they can claim at the federal level by finding a work-around of the \$10,000 SALT deduction. Increasing their itemized amount would result in a savings to taxpayers, as their federal tax liability would decrease.

A business entity is not bound by the \$10,000 limit. So a plan was created in several states and appears to be allowed by the federal government that would allow the business entity to report the group's income and pay the taxes of the group as a whole. The business entity then receives the greater itemized deduction on their federal return and lowers their overall tax liability. This results in a savings to the business entities.

This provision is setting up this work around at the state level for Missouri businesses. This provision in Section 143.436.3 & 143.436.4 would allow partnerships and S Corporations to pay as a whole. The partnership or S Corp would report income for the whole business and file a return on behalf of the entire group. For tax years beginning on or after January 1, 2023, this act would allow the pass-through business entity to elect to pay a company tax. The tax is to equal the sum of each member's income and loss items, as described in federal law, reduced by a deduction allowed for qualified business income, as described in federal law, and modified by current provisions of state law relating to the taxation of pass-through entities, with such sum multiplied by the highest rate of tax in effect for the state personal income tax rate.

Per this provision they would be required to use the highest individual income tax rate for the tax rate. That rate is currently 5.3% for TY 2022. Currently, if members of the business entity pay taxes, the amount paid depends on their income and which tax bracket they are assessed at. Having these business entities pay the state the highest individual income tax rate could potentially result in an increase in revenue to the state as opposed to each member filing separately.

Upon filing the business entity tax return, the business entity notifies the Department of its election to file as a group and provides a report to the Department of the proportional share of income earned and tax paid of each member. The individual members of the business entity are then required to file an individual income tax return. They must report the amount of the pro rata share that was paid by the business entity. They are then allowed a credit against the tax already paid by the business entity.

The credit is equal to their pro rata share of the tax paid. This provision states these credits are not refundable but can be carried over until fully taken. The lack of refundability of the credits could result in some members not being able to use their credits. If credits are never redeemed this results in revenue to the state.

This provision in Section 143.436.11 requires these business entities to annually elect whether or not to participate in this business entity tax program. This program is strictly voluntary. Due to the voluntary nature of this program, the Department is not able to determine how many potential S Corps or partnerships would chose to participate each year.

The Department assumes that business entities would chose to participate based on what is best for the majority of its members. While a business entity may choose what is best for the majority of its members, some members may not see a benefit under this program. Individual income tax returns are specific to each taxpayer's life situation. Two people with the same job

and same income may have very different life situations that can impact the amount of tax liability they will have. One may be married with kids while the other may be single with no kids but an illness that requires extensive medical payments. Their final tax liability may be different.

Is it possible that due to an individual's life situation they end up owing less in taxes to the State than they otherwise would have if their business reported under current law? It is possible. It is also possible they could owe more. Depending on which happened, additional or less revenue to the state is possible.

The Department notes it is unable to estimate the actual fiscal impact of this provision. The Department cannot predict the number of business entities that would chose to participate in this voluntary program. Nor is the department able to predict how many of the individual taxpaying business entity members would benefit or be hurt by this provision. The Department notes that business entity members would benefit from the increased federal deduction and receive a savings on their federal return. However, based on the taxes paid by the business entity as a whole and the credits provided the members this provision would not result in more than a minimal impact to the state.

The Department notes this provision would ease an administrative burden on the Department. Under current law, in order to audit the Department spends a lot of time trying to identify all the members of a business entity to ensure all the tax is paid. With the business entities filing the taxes and reporting the number of partners and pro rata share of the income, this would allow the Department to more easily audit these businesses, saving time and resources. This provision with the previous partnership audit reporting laws that passed in 2020 will ease some of the time consuming tracking of these business entities. The amount of the impact can't be determined due to the voluntary nature of the program.

The Department notes this will require making changes to the existing tax reporting forms and potentially the creation of a new form for identifying the business entity members and their pro rata share. These changes are estimated to cost \$5,000. Additional programming and other website updates would result in \$3,596 in costs.

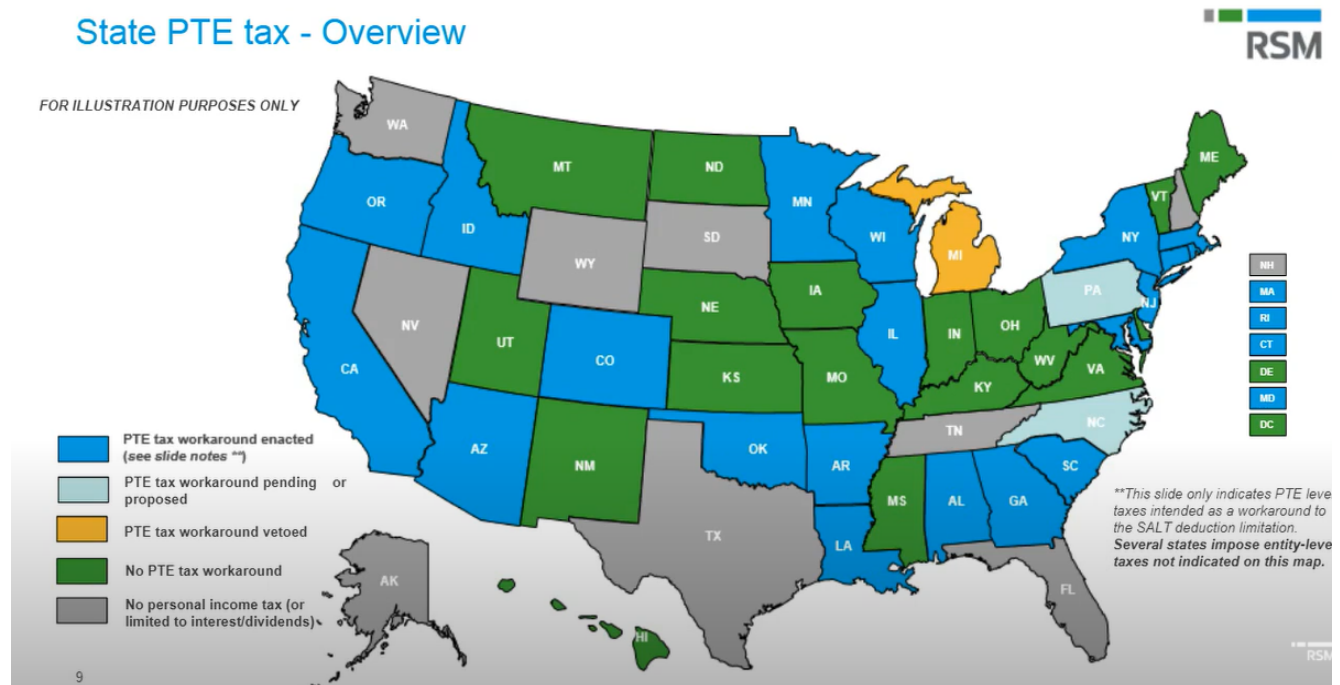
Oversight assumes the Department of Revenue is provided with core funding to handle a certain amount of activity each year. Oversight assumes DOR could absorb the form and programming (administrative) costs related to this provision. If multiple bills pass which require additional staffing and duties at substantial costs, DOR could request funding through the appropriation process. Officials from the DOR assume the provision will have minimal fiscal impact on their organization.

Oversight notes that **DOR** and **B&P** both note the deductions for purpose of the state and local taxes (SALT) paid by pass-through business owners are currently capped at \$10,000. Conversely, C corporations are allowed to fully deduct these same expenses. In states that tax pass-through firms at the owner level, the disparate treatment puts their firms at a significant

disadvantage compared to C corporations. As such, restoring the federal SALT deduction in its entirety for pass-through entities has been a key priority for [S-CORP](#) and the [Main Street Employers coalition](#) since the cap was implemented back in 2017.

Oversight notes, that according to the [taxpolicycenter.org](#), a joint project from the Urban Institute and the Brookings Institution, in 2017, 16 percent of tax filers with income between \$20,000 and \$50,000, 76 percent of tax filers with income between \$100,000 and \$200,000, and over 90 percent of tax filers with income above \$200,000 claimed SALT.

Oversight notes since 2018, the Main Street Employers coalition has led advocacy efforts to restore the State and Local Tax (SALT) deduction for pass-through businesses. More than a half dozen states have enacted various version of such a legislation to date and, following the 2020 Treasury Department announcement, IRS Notice 2020-75 (11/2020), validating this legislative approach, SALT Parity measures are being actively considered in more than a dozen states this year.



<https://news.bloombergtax.com/tax-insights-and-commentary/salt-cap-workaround-pass-through-entity-tax-update-part-ii>

Oversight notes that under this provision, a small business may elect to pay tax at the entity level, and a corresponding credit is allowed at the partner, member, or shareholder level. There are four main categories of businesses, which would qualify for such a deduction as shown below:

- a) General Partnerships
- b) Limited Partnerships
- c) Limited Liability Companies
- d) Sub-Chapter S Corporations

Additionally, there are no restrictions as to Multi-tier Partnerships or Trusts that are entity partner members.

Oversight notes that officials from the DOR and SOS added, via additional e-mails, that there are currently at least 81,000 S-Corporations in Missouri. The Department of Revenue is not able to discern how many partnerships are currently in Missouri. Officials from the SOS note that a partnership can exist and function as a business without any kind of document setting out the rights or responsibilities of the partners. These partnerships function similarly to a sole proprietorship, but have two or more owners (partners). The only partnerships which have to register with the SOS are those which intend to limit the liability of the individual partners or the partner company, and in this regard, function similarly to a corporation. Therefore, neither DOR nor SOS can estimate the collective number of partnerships which operate in Missouri at any given time, as they are not all required to register.

Oversight notes that by paying tax at the entity level, members of the PTE are deducting expenses and taxes incurred by the trade or business (i.e., an above-the-line deduction) versus a conventional below-the-line deduction at an individual level that would be subject to the SALT limitation of \$10,000. Moreover, according to estimates from the U.S. Congress' Joint Committee on Taxation, less than 15% of taxpayers currently qualify to itemize their deductible amounts while filing taxes with average AGI of \$60,981 and an average SALT amount of \$9,958.

As provided in the provision, companies file their income tax at the individual level while using the 95% credit for filing at the entity level as a deduction. For the purpose of this provision, **Oversight** will assume that the company election process will happen throughout FY 2023 due to various companies' filing tax schedules. (I.e. some filing monthly, quarterly, annually, etc.)

For information purpose, **Oversight** will show the various impact of the provision below:

Table 1

Proposed - *assuming \$200,000 deductible without SALT cap		
Entity Level	ABC LLP - 2 Members 50/50 Partners	
Net Income	800,000	
Tax liability paid	32,000	
Member level	A - 50%	B-50%
Net Income	\$ 400,000.00	\$ 400,000.00
Tax	\$ 21,200.00	\$ 21,200.00
Tax Credit at 95%	(\$32,000/2)*.95	(\$32,000/2)*.95
Tax credit amount awarded	\$ 15,200.00	\$ 15,200.00
Tax liability amount at members level	\$ 6,000.00	\$ 6,000.00
Total tax paid	\$ 22,000.00	\$ 22,000.00
		\$ 44,000.00

Oversight notes the example in Table 1 shows how the 95% tax credits would work against the personal income taxes at the individual member level from the current law.

Table 2

Current Law		
Entity Level	ABC LLP - 2 Members 50/50 Partners	
Net Income	1,000,000	
Tax liability paid	0	
Member level	A - 50%	B-50%
Net Income (entity + other income)	\$ 600,000.00	\$ 600,000.00
Tax	\$ 31,800.00	\$ 31,800.00
Tax Credit at 95%		
Tax credit amount awarded		
Tax liability amount at members level		
Total tax paid to the State	\$ 31,800.00	\$ 31,800.00
		\$ 63,600.00

Oversight notes in Table 2, the current law provides lesser tax deductions beyond SALT allowable deductions. However, Table 3 also shows that due to the personal income of each member within the partnership, the overall collected tax in Missouri would not be lesser or higher, but minimally higher or lesser depending on the individual company and each member's personal tax consequence.

Table 3.

Entity Level	ABC LLP - 2 Members 50/50 Partners		
Net Income		800,000	
Tax liability paid		32,000	
Member level		A - 50%	B-50%
Net Income (entity + other income)	\$	600,000.00	\$ 600,000.00
Tax	\$	31,800.00	\$ 31,800.00
Tax Credit at 95%		(\$32,000/2)*.95	(\$32,000/2)*.95
Tax credit amount awarded	\$	15,200.00	\$ 15,200.00
Tax liability amount at members level	\$	16,600.00	\$ 16,600.00
		(31,800-15,200)	
Total tax paid	\$	32,600.00	\$ 32,600.00
		partner 1+ partner 2 tax totals	\$ 65,200.00

Oversight is not able to discern the level of gain or loss to general revenue in any given year because there is currently no data showing the amount of individual income levels or tax rate for each affected company specified within the provision. (I.e. LLP, LP, S-Corp. etc.)

Oversight notes the provision shall be apply to tax years ending on or after December 31, 2022. The taxpayers will not be filing their 2022 income taxes until January 1, 2023 (FY 2023).

Therefore, Oversight will note a minimum Unknown positive to Unknown negative impact beginning in FY 2023 in the fiscal note.

Oversight notes that while the Tax Cuts and Jobs Act placed a \$10,000 cap on the SALT deduction, it's only temporary. The cap applies to taxable years 2018 through 2025. After tax year 2025, the cap will end, and taxpayers will once again be able to deduct 100 percent of their eligible state and local taxes, unless other tax code changes are passed before then.

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

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

In response to similar legislation (SCS for SB #931), 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.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposed legislation. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriations process.

Sections 347.020 - 358.470 LLC Provisions

In response to a similar proposal (SCS SB 877), officials from the **Office of the Secretary of State (SOS)** assumed the General Revenue regarding these particular filings will decrease, for Limited Liability Companies, and decrease for Limited Liability Partnerships in the first five years.

A new filing of Information Statement for LLCs will start in 2025 and affect LLCs every five years thereafter for each new registration resulting in a positive fiscal impact.

State revenue in 10 years would then level back as the fee cut shifts to the information statement required every five years.

These estimates assume various rate(s) of participation and use of an averaging of historical data to determine estimations.

347.044-347.183 (LLC)

<u>FY</u>	<u>GR 0101</u>	<u>TECH 0266</u>
FY2023	\$ (1,258,214)	\$ 180
FY2024	\$ (1,227,894)	\$ 216
FY2025	\$ (1,295,576)	\$ 344,544

358.460-358.470 (LLP)

<u>FY</u>	<u>GR 0101</u>	<u>TECH 0266</u>
FY2023	\$ (565.00)	
FY2024	\$ (590.00)	
FY2025	\$ (545.00)	

Current customer ratio of paper vs online is 25% to 75% for creation filings the change in fees would strive to move that ratio to 5% paper and 95% online. Filing online will have a cost savings as the system is set up to auto process creation documents. While this cost saving is not true for all filings, as manual review by an examiner is required for those documents, there are added benefits to customer submitting online.

It is assumed that 30% of the current LLCs listed as active are actually doing business and will file an information statement as required under 347.044, with an increase rate over time as new LLCs will know before creating that an information statement will be required in five years. The first LLC was created in December of 1993, since that time over 800,000 entities have been created, or converted to the entity type of Limited Liability Company.

Series LLC is a growing area of the LLC entity type. It is unknown how many filings will be effected by the change in cost, as SOS does not currently have revenue collected for these filings. The best estimate is based on what an examiner thinks LLCs file per month annualized.

The technology trust fund is not impacted until January of 2025 when 347.044 starts.

Expenditures for notices mailed to the affected LLCs are estimated at \$206,974 in FY25, \$426,044 in FY26, \$199,186 in FY27, and \$82,950 in FY28. These will be split between GR and Tech Fund each fiscal year.

SOS states the overall impact is estimated at:

Fund Affected	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
General Revenue	(\$1,048,982)	(\$1,228,484)	(\$969,018)	(\$688,411)	(\$960,640)	(\$909,915)
Technology Trust Fund	\$180	\$216	\$224,032	\$395,613	\$213,412	\$274,525
Total Estimated Net Effect on All State Funds	(\$1,048,802)	(\$1,228,268)	(\$744,986)	(\$292,798)	(\$747,228)	(\$635,390)

The Secretary of State reserves the right to offset or request additional resources for estimated fiscal note impacts during the budget process.

Oversight notes that on similar legislation, SB 286 from 2021, SOS stated all changes to software would require working with a third party vendor and/or the Information Technology department. Resulting in an estimated expenditure of \$77,600. SOS is now handling this in-house; therefore, Oversight will no longer reflect this cost on the fiscal note.

Oversight will reflect the estimated fiscal impact as provided by SOS.

The **SOS** also assumes 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 the 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.

Oversight assumes the **SOS** could absorb the costs of printing and distributing regulations related to this provision. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the **SOS** could require additional resources.

Officials from the **Office of Administration - Budget and Planning (B&P)** note these sections make multiple changes regarding the formation, dissolution, information filings, and fees charged to LLCs.

Section 347.020 requires a one-year wait period before an LLC name can be reused.

Section 347.044 requires LLCs to file information reports with the Secretary of State every five-years.

Section 347.143 creates new provision related to court ordered dissolutions of LLCs.

Section 347.179 would lower existing business fees and create new fees charged by the Secretary of State. B&P notes that this provision could have an unknown impact on TSR.

Section 347.183 would apply existing late fees to the new information reports created under Section 347.044. Section 347.183 would also allow the Secretary of State to cancel a LLCs articles of organization 60 days after failing to file an information report. In addition, Section 347.183 creates new provisions related to the reinstatement of a LLCs articles of organization, if the articles were administratively canceled by the Secretary of State. B&P notes that these provisions could have an unknown impact on TSR.

Section 347.186 would limit the number of series that may be impacted per filing.

Sections 358.460 and 358.470 reduces existing LLC filing fees. B&P notes that these provisions could have an unknown impact on TSR.

Officials from the **Department of Revenue** note these provisions are in regards to business filings at the Office of the Secretary of State's Office. These provisions will not fiscally impact the Department and DOR defers to the Office of the Secretary of State for any impact.

Section 362.034 Financial Institutions Provisions

Officials from the **Office of Administration - Budget and Planning (B&P)** note this provision would allow a state or local agency to share, upon written request, certain information with the business's financial institution.

This provision will not impact TSR or the calculation under Article X, Section 18(e).

In response to similar legislation (SB 716), officials from the **Department of Health and Senior Services (DHSS)** stated that this provision allows any entity that operates as a facility licensed or certified under Article XIV, Section 1 of the Constitution of Missouri to request in writing that a state or local licensing authority or agency share the entity's application, license, or other regulatory and financial information with a banking institution. The state or local licensing

authority or agency shall include in the written request a waiver giving authorization for the transfer of the individualized data, information, or records and waiving any confidentiality or privilege that applies to that individualized data, information, or records. The Division of Regulation and Licensure, Section for Medical Marijuana Regulation (SMMR) expects to absorb these costs in the normal ebb and flow of its operations.

The Department of Health and Senior Services anticipates being able to absorb these costs. However, until the FY23 budget is final, the department cannot identify specific funding sources.

Oversight does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for DHSS for this section.

In response to similar legislation (SB 716), officials from the **Department of Commerce and Insurance** and the **Department of Revenue** each assume the provision will have no fiscal impact on their respective organizations.

Oversight notes that the above mentioned agencies have stated the provision 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 on the fiscal note for this section.

Section 407.475 Charitable Organization Requirements

In response to similar legislation (SCS for SB 968), officials from the **Attorney General's Office, Office of Administration - Budget and Planning, Department of Economic Development, Department of Natural Resources, Department of Corrections, Department of Labor and Industrial Relations, Department of Elementary and Secondary Education, Department of Higher Education and Workforce Development, Department of Health and Senior Services, Department of Mental Health, Department of Public Safety, Department of Social Services, Missouri Department of Agriculture, Missouri Department of Conservation, Department of Transportation, Department of Commerce and Insurance, Department of Economic Development, Department of Social Services, and the Office of the State Courts Administrator** each assume the provision would not fiscally impact their respective agencies.

In response to similar legislation (SB 968), officials from the **Department of Labor and Industrial Relations** assumed the provision would not fiscally impact their agency.

Oversight notes that the above mentioned agencies have stated the provision 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 on the fiscal note for these agencies for this section.

Officials from the **Office of Administration - Budget and Planning (B&P)** note this section would prohibit a state agency from requiring a charitable organization to provide annual filing or reporting beyond those required under section 407.462 and federal law.

B&P notes that some charitable organizations may be required to file annual state tax returns, which are not one of the allowable filing or reporting requirements under section 407.462 or federal law. B&P defers to DOR for more information.

Therefore, this section may reduce GR and TSR by an unknown amount. This section may impact the calculation under Article X, Section 18(e).

Officials from the **Department of Revenue** note this provision would not allow a state agency to put an annual filing or reporting requirements on a charity that is more stringent than other organization's requirements. This will not have a fiscal impact on the Department.

Oversight will reflect the possible scenario described by B&P if charitable organizations are no longer required to report and file tax returns on unrelated business taxable income as a result of this provision. Therefore, the state may see a reduction in tax revenue of an unknown amount. Oversight will show the impact as a \$0 or (Unknown) potential loss of general revenue funds.

Section 431.201 Business Covenants (SA 2)

Administrative Hearing Commission officials assume this provision will have no fiscal impact on their agency.

Officials from the **City of Kansas** and **City of Springfield** both assume this provision will have no fiscal impact on their respective organizations.

Officials from the **Missouri State University** and **University of Missouri System** both assume this provision will have no fiscal impact on their respective organizations.

Oversight notes the above mention agencies, universities, and local political organization have stated the provision 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 on the fiscal note for this section.

Officials from the **Office of Administration - Budget and Planning** note these sections will not impact TSR or the calculation under Article X, Section 18(e).

In response to similar legislation (SB 833), officials from the **Department of Labor and Industrial Relations, Missouri Department of Conservation, Missouri Department of Transportation, Attorney General's Office, Office of Administration,** and the **Administrative Hearing Commission** each assume this provision will have no fiscal impact on their respective agencies.

In response to similar legislation (SB 833), officials from the **City of Kansas** and **City of Springfield** both assume this provision will have no fiscal impact on their respective organizations.

In response to similar legislation (SB 833), officials from the **Missouri State University** and **University of Missouri System** both assume this provision will have no fiscal impact on their respective organizations.

Oversight notes the above mention agencies, universities, and local political organization have stated the provision 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 on the fiscal note for this section.

In response to similar legislation (SB 833), officials from the **Office of the Secretary of State (SOS)** assume 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.

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

Oversight only reflects the responses received from state agencies and political subdivisions; however, other school districts, counties, cities, colleges, and universities were requested to respond to this proposed legislation but did not. A listing of political subdivisions included in the Missouri Legislative Information System database is available upon request.

Section 620.1039 Qualified Research Tax Credit (SA 4)

Officials from the **Office of Administration - Budget and Planning (B&P)** note this provision reauthorizes the tax credit for qualified research expenses beginning in tax year 2023. A taxpayer may receive a tax credit in an amount up to 15% of the taxpayer's additional qualified research expenses or 20% of the taxpayer's additional qualified research expenses if such expenses relate to research that is conducted in conjunction with a public or private college or

university located in this state. No taxpayer shall receive a tax credit in excess of \$300,000 in a calendar year.

This credit would have a 12-year carry forward provision. The credits may be transferred, sold, or assigned. The cap on the credits is \$10M, provided that \$5M shall be reserved for minority business enterprises, women's business enterprises, and small businesses. In the event that total eligible claims for tax credits exceed the cap, each eligible claimant shall be issued credits on a pro-rata basis provided that all claimants that are new businesses less than five years old shall be issued the full amount of tax credits for which claimants are eligible if such amount is available. If the entirety of the \$5M reserved for minority business enterprises, women's business enterprises, and small businesses is not authorized, the DED shall make such unused amount available to other applicants.

Section 620.1039.2(5) would also create an additional state and local sales tax exemption for the purchase of Missouri qualified equipment. It is unknown how many businesses would utilize the sales tax exemption or the fiscal impact of such a sales tax exemption.

B&P notes that while the tax credit would not begin until tax year 2023, the sales tax exemption would begin on August 28, 2022. For the purpose of this fiscal note, B&P assumes that tax credits granted for tax year 2023 will not be redeemed until businesses file their annual tax return in April 2024. Therefore, B&P estimates that this provision could reduce state and local funds by an unknown amount in FY23. Once fully implemented in FY24, this provision may reduce GR and TSR by an amount that could exceed \$10M annually.

This program may encourage economic activity. B&P cannot estimate additional induced revenues.

The provision could impact the calculation under Article X, Section 18(e).

Officials from **Department of Economic Development** note Section 620.1039.1 adds definitions for:

- (1) Additional qualified research expenses
- (2) Minority business enterprise
- (3) Missouri qualified research and development equipment
- (4) Qualified research expenses
- (5) Small business
- (7) Women's business enterprise

Section 620.1039.2 (2) - For all tax years beginning on or after January 1, 2023, DED may authorize a tax credit in an amount equal to the greater of:

- (a) 15% of the taxpayer's additional qualified research expenses; or

(b) If such qualified research expenses relate to research conducted in conjunction with a public or private college or university located in this state, 20% of the taxpayer's additional qualified research expenses.

However, in no case shall a tax credit be allowed for any portion of qualified research expenses that exceed 200% of the taxpayer's average qualified research expenses incurred during the three immediately preceding tax.

Section 620.1039.3 - For all tax years beginning on or after January 1, 2023, where the amount of the credit exceeds the tax liability, the difference between the credit and the tax liability may only be carried forward for the next 12 succeeding tax years or until the full credit has been claimed, whichever occurs first.

Section 620.1039.7 (2)

(a) For all tax years beginning on or after January 1, 2023, the aggregate of all tax credits authorized under this section shall not exceed \$10M in any year.

(b) \$5M of such \$10M dollars shall be reserved for minority business enterprises, women's business enterprises, and small businesses. Any reserved amount not issued or awarded to a minority business enterprise, women's business enterprise, or small business by November first of the tax year may be issued to any taxpayer otherwise eligible for a tax credit.

(c) No single taxpayer shall be issued or awarded more \$300,000 in tax credits in any year.

(d) In the event that total eligible claims for credits received in a calendar year exceed the annual cap, each eligible claimant shall be issued credits based upon a pro-rata basis, given that all new businesses, defined as a business less than 5 years old, are issued full tax credits first.

Reauthorizing the tax credit will likely reduce annual TSR by up to the annual cap on the program of \$10M.

Since this legislation requires additional duties, responsibilities, prioritization of credits, and monitoring than the prior legislation, DED will need to hire 2.0 FTE to administer the program.

Oversight notes that in response to the similar provisions, HB 1579 (2022) and SCS SB 545 (2021), the DED only requested one FTE for this program.

Oversight notes the prior Tax Credit for Qualified Research Expenses expired for all tax years beginning on or after January 1, 2005. Therefore, for purposes of this fiscal note, Oversight will include DED's 1 FTE administrative cost(s), as reported by DED in all previous versions of this provision, less the "In-State" and "Out of State" travel costs reported as this proposed legislation does not require that DED visit, evaluate or audit any site(s).

Officials from the **Department of Revenue** note this provision would reinstate the expired qualified research tax credit program starting January 1, 2023. The original program stopped in 2005.

This provision creates a tax credit in an amount up to 15% of the taxpayer's qualified research expense or 20% of the taxpayer's qualified research expense if those expenses are related to university research. Starting January 1, 2023, this allows the credit to be carried forward for twelve years and imposes a cap of \$10 million. This provision requires that \$5 million of the credit be reserved for minority business enterprises, women's business enterprises and small businesses. Each taxpayer is limited to \$300,000 in credits.

The Department notes this provision would begin in January 1, 2023, and would be claimed on the returns starting in January 2024 (FY 2024). The Department assumes that since this provision has a cap of \$10 million annually it would be expected to be a loss to general revenue of the \$10 million.

Since the previous credit expired 15 years ago, this credit is no longer listed on the MO-TC form or in the individual income tax filing system. This would require programming and form changes estimated at \$3,596. The Department would need the following FTE should the number of credits received justify the FTE.

- * 1 FTE Revenue Processing Technician for every 6,000 credits redeemed
- * 1 FTE Revenue Processing Technician 1 for every 4,000 tax credit transfers with CISCO phones and license.
- * 1 FTE Revenue Processing Technician for every 7,600 errors/correspondence generated
- * 1 FTE Revenue Processing Technician for every 1,100 refund requests

Officials from the **Department of Revenue** note this provision in Section 620.1039.5 creates a state and local sales tax exemption for all purchases of qualified research and development equipment and property. This provision does not cap the amount of sales tax exemption that can be claimed nor is it bound by the \$10 million cap of the tax credit. The provision allows the exemption on all items that are considered "qualified research expenses" as defined by 26 U.S.C. Section 41.

The federal definition includes both equipment and salaries of employees. The Department is unable to determine how many businesses will qualify for the mix of tax credits and sales tax exemptions or the amount of equipment that would become exempt from the sales tax due to these qualified research projects. This provision would result in a loss to the sales tax funds. This would be an unknown loss to General Revenue, School District Trust Fund, Conservation Commission, and the Park, Soil & Water Funds.

Oversight notes that DOR officials assume most of the equipment and R&D expenses are currently covered by existing sales tax exemption; however it could potentially impact all funds receiving sales tax revenue currently. Due to the extent of current sales tax exemption as

identified in RSMo 144.054 the amount newly exempt sales tax will not exceed \$250,000 annually. Therefore, Oversight will reflect range in loss of revenue \$0 to Unknown to the General Revenue, School District Trust Fund, Conservation Commission, and the Park, Soil & Water Funds.

Oversight notes that for purposes of this fiscal note, since the actual number of tax credit redemptions that will occur is unknown, Oversight will report DOR's impact "Up to" the three (3) FTE(s) estimated by DOR.

However, **Oversight** notes the first tax year in which taxpayers would qualify for the tax credit created is Tax Year 2023. Oversight notes individuals would not file their Tax Year 2023 tax returns until after January 1, 2024 (6 months after the beginning of Fiscal Year 2024).

Therefore, **Oversight** will report DOR's administrative cost(s) beginning in Fiscal Year 2024 assuming DOR can hire and train such FTE(s) within the first six (6) months of Fiscal Year 2024; before Tax Year 2023 tax returns would begin to be filed claiming the proposed tax credit.

Officials from the **Missouri Department of Commerce and Insurance (DCI)** note:

The provision has 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 modification of the qualified research 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 modified tax credit.

Oversight notes this proposed legislation would, beginning in Tax Year 2023, authorize a tax credit equal to ten percent (15%) of the excess of the taxpayer's qualified research expenses within this state during the tax year over the average of the taxpayer's qualified research expenses within this state over the immediately preceding three (3) tax years.

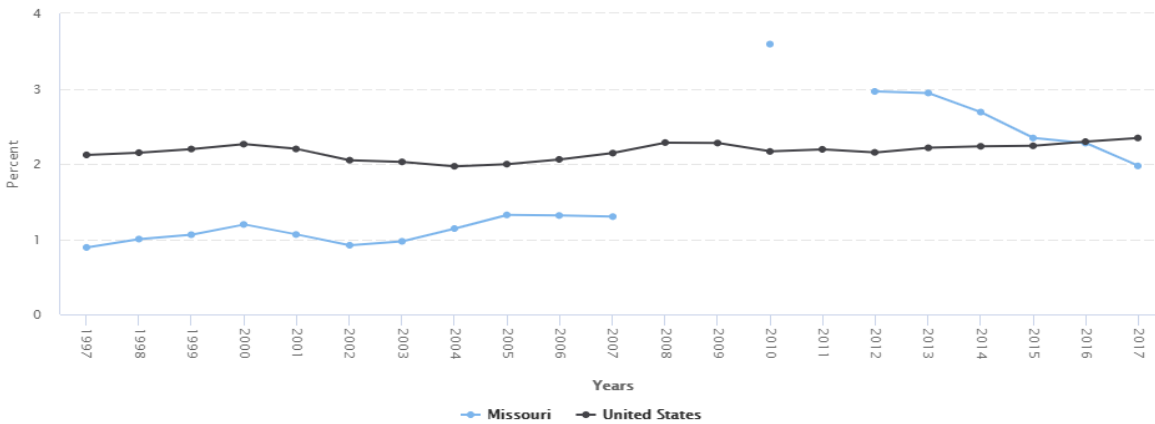
Oversight notes, should the taxpayer's qualified research expenses be related to research that is conducted in conjunction with a public or private college or university located in this state, the tax credit authorized would be equal to twenty percent (20%) of the excess of the taxpayer's qualified research expenses within this state during the tax year over the average of the taxpayer's qualified research expenses within this state over the immediately preceding three (3) tax years.

Oversight notes this proposed legislation defines "Qualified Research" as "the same meaning as prescribed in 26 U.S.C. 41". Oversight notes 26 U.S.C 41 defines "Qualified Research Expenses" as "the sum of the following amounts which are paid or incurred by the taxpayer

during the taxable year in carrying on any trade or business of the taxpayer – (A) in-house research expenses, and (B) contract research expenses”. Oversight assumes, then, that the tax credit would be calculated similar to the following example:

Tax Credit Allocation Example		
Tax Year	Total Research Expense	
2019	\$85,000,000	
2020	\$96,000,000	
2021	\$100,000,000	
3 Year Average		\$93,666,667
2022	\$ 109,000,000	
Excess of Three Year Average	\$ 15,333,333	(109,000,000 -93,666,667)
	15%	20%
Equal to 15%to 20% of Excess	\$ 2,300,000	\$ 3,066,667

Business–Performed R&D as a Percentage of Private-Industry Output



Oversight notes the trend line(s) shown above report the business-performed research and development as a percentage of private-industry output. Thus, the assumption could be that Missouri’s business-performed research and development has not truly declined; but rather Missouri’s private-industry output has continuously increased by amounts greater than the increase in Missouri’s business-performed research and development. The following data, however, suggests that Missouri’s business-performed research and development **has** been declining.

Year	Missouri Chained GSP (Actual)	Estimated Private Sector Contribution To Total GSP (89%)	Missouri Research and Development - As A Percent of Private-Industry Output	Estimated Missouri Business-Performed Research and Development (\$)
2016	\$ 276,211,000,000	\$ 245,828,000,000	2.27%	\$ 5,580,000,000
2017	\$ 279,264,000,000	\$ 248,545,000,000	1.97%	\$ 4,896,000,000
2018	\$ 284,696,000,000	\$ 253,379,000,000	2.56%	\$ 6,487,000,000
2019	\$ 287,659,000,000	\$ 256,057,000,000	2.19%	\$ 5,607,000,000
2020	\$ 227,354,000,000	\$ 246,845,060,000	2.08%	\$ 5,146,423,287

Based on the data above, Oversight assumes business-performed research and development in Missouri did decline during 2016-2019. According to the article published by Business Environment Profiles – United States R&D expenditure will R&D expenditure is expected to decline 4.8% in 2020 (from 2019 levels - 2.19% to 2.08%) due to the ongoing economic crisis and COVID-19 pandemic. ([R&D Expenditure Projections](#)).

Based on the data above, Missouri’s three (3) year average estimated business-performed research and development totals \$5,663,203,648 (2017 – 2019). Based on the data above, Missouri’s estimated business-performed research and development in 2020 totaled \$5,146,423,287. This suggests that there would be potentially no amount in excess of the three (3) year average to be used to calculate a tax credit.

Oversight notes, though, that the data reported above are a representation of the State of Missouri as a whole, and not each individual business.

Should the assumption be accepted that each of Missouri’s individual business’s research and development trends follow that of Missouri as a whole, **Oversight** assumes no tax credits would be authorized under this proposed legislation (**unless research and development has increased since the last year reported**).

Oversight assumes, though, such an assumption is not likely; some businesses in Missouri may recognize increased research and development each year, even as the state, as a whole, recognizes a continuous decrease.

Since the actual amount of future tax credit authorization(s) is unknown, for purposes of this fiscal note, Oversight will report a revenue reduction to GR equal to an amount “Up to” the \$10,000,000 cap beginning in Fiscal Year 2024.

<u>FISCAL IMPACT – State Government</u>	FY 2023 (10 Mo.)	FY 2024	FY 2025	Fully Implemented (FY 2028)
GENERAL REVENUE FUND				
Transfer Out – §44.032 - Missouri Disaster Fund to now cover rural electric cooperatives p. 4	\$0 to (Unknown, Greater than \$250,000)	\$0 to (Unknown, Greater than - \$250,000)	\$0 to (Unknown, Greater than \$250,000)	\$0 to (Unknown, Greater than \$250,000)
Revenue Loss - §143.081 Tax Credit for S-Corporation p. 5-6	(Unknown – could exceed \$250,000)	(Unknown – could exceed \$250,000)	(Unknown – could exceed \$250,000)	(Unknown – could exceed \$250,000)
Revenue Loss – §143.121 – Income Tax Deduction For Medical Marijuana Businesses p. 6-8	(Unknown, possibly significant)	(Unknown, possibly significant)	(Unknown, possibly significant)	(Unknown, possibly significant)
Revenue Loss or Gain - §143.436 SALT Parity Act: Entity And Individual Tax Liability Paid p. 8-16	Minimum Unknown to Minimum (Unknown)	Minimum Unknown to Minimum (Unknown)	Minimum Unknown to Minimum (Unknown)	Minimum Unknown to Minimum (Unknown)
<u>Loss</u> - §347.020 - 358.470 SOS-fee Revenue reduction (LLC) p. (16-19)	(\$1,052,162)	(\$1,234,098)	(\$1,303,151)	(\$1,279,240)
<u>Loss</u> - §347.020 - 358.470 SOS-fee Revenue reduction (LLP) p. (16-19)	(\$471)	(\$590)	(\$545)	\$0
<u>Cost</u> - §347.020 - 358.470 SOS-notices mailed to affected LLCs p. (16-19)	\$0	\$0	(\$120,512)	(\$41,475)

<u>Income</u> - §347.020 - 358.470SOS-fee Revenue for LLC p. (16-19)	\$3,650	\$6,204	\$455,190	\$410,800
<u>Loss</u> – §407.475 DOR – if, with this bill, charitable organizations are no longer required to file certain tax returns p. 20-21	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)
<u>Revenue Reduction</u> – §620.1039 – Tax Credit For Qualified Research Expenses p. 22-28	\$0	Up to (\$10,000,000)	Up to (\$10,000,000)	Up to (\$10,000,000)
<u>Cost</u> – DED – §620.1039 – Administration Of Tax Credit Program p. 24				
Personnel Services	(\$36,305)	(\$44,437)	(\$45,326)	Could exceed (\$45,326)
Fringe Benefits	(\$24,500)	(\$29,692)	(\$29,990)	Could exceed (\$29,990)
Equipment & Expense	(\$10,469)	(\$2,647)	(\$2,701)	Could exceed (\$2,701)
Total <u>Cost</u> – DED	(\$71,274)	(\$76,776)	(\$78,017)	Could exceed (\$78,017)
Total FTE – DED	1 FTE	1 FTE	1 FTE	1 FTE
<u>Cost</u> – DOR – §620.1039- Redemption/Transfer/Error Processing Of Tax Credits p. 25		Up to...	Up to...	Up to...
Personnel Services	\$0	(\$53,183)	(\$53,714)	Could exceed (\$53,714)
Fringe Benefits	\$0	(\$44,479)	(\$44,672)	Could exceed (\$44,672)
Equipment & Expense	\$0	(\$23,202)	(\$1,007)	Could exceed (\$1,007)
Total <u>Cost</u>	\$0	(\$120,864)	(\$99,393)	Could exceed (\$99,393)
FTE Change – DOR	0 FTE	3 FTE	3 FTE	3 FTE

<u>Loss of Revenue</u> – §620.1039 5. –Sales & Use tax exemptions p. 26	\$0 to <u>(Unknown)</u>	\$0 to <u>(Unknown)</u>	\$0 to <u>(Unknown)</u>	\$0 to <u>(Unknown)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>(\$1,620,257)</u> to <u>(Unknown)</u>	<u>Up to (\$11,926,124)</u> to <u>(Unknown)</u>	<u>Up to (\$11,646,428)</u> to <u>(Unknown)</u>	<u>Up to (\$11,587,325)</u> to <u>(Unknown)</u>
Estimated Net FTE Change on General Revenue	1 FTE	Up to 4 FTE	Up to 4 FTE	Up to 4 FTE
MISSOURI DISASTER FUND (0663)				
<u>Transfer In</u> – §44.032 - from General Revenue p. (3-4)	\$0 to Unknown, Greater than \$250,000	\$0 to Unknown, Greater than \$250,000	\$0 to Unknown, Greater than \$250,000	\$0 to Unknown, Greater than \$250,000
<u>Cost</u> – §44.032 SEMA - Disaster damages p. (3-4)	\$0 to <u>(Unknown, Greater than \$250,000)</u>	\$0 to <u>(Unknown, Greater than \$250,000)</u>	\$0 to <u>(Unknown, Greater than \$250,000)</u>	\$0 to <u>(Unknown, Greater than \$250,000)</u>
ESTIMATED NET EFFECT ON THE MISSOURI DISASTER FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
TECHNOLOGY TRUST FUND				
<u>Income</u> - §347.020 - 358.470 SOS- filing fees p. (15-17)	\$180	\$216	\$344,544	\$316,000
<u>Cost</u> - §347.020 - 358.470 SOS-notices mailed to affected LLCs p. (15-17)	<u>\$0</u>	<u>\$0</u>	<u>(\$120,512)</u>	<u>(\$41,475)</u>

ESTIMATED NET EFFECT TO THE TECHNOLOGY TRUST FUND	<u>\$180</u>	<u>\$216</u>	<u>\$224,032</u>	<u>\$274,525</u>
SCHOOL DISTRICT TRUST FUND (0688)				
<u>Loss of Revenue – 620.1039 5. –Sales & Use tax exemptions (p.26)</u>	<u>\$0 to (Unknown)</u>	<u>\$0 to (Unknown)</u>	<u>\$0 to (Unknown)</u>	<u>\$0 to (Unknown)</u>
ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND	<u>\$0 to (Unknown)</u>	<u>\$0 to (Unknown)</u>	<u>\$0 to (Unknown)</u>	<u>\$0 to (Unknown)</u>
CONSERVATION COMMISSION FUND (0609)				
<u>Loss of Revenue – 620.1039 5. –Sales & Use tax exemptions (p.26)</u>	<u>\$0 to (Unknown)</u>	<u>\$0 to (Unknown)</u>	<u>\$0 to (Unknown)</u>	<u>\$0 to (Unknown)</u>
ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND	<u>\$0 to (Unknown)</u>	<u>\$0 to (Unknown)</u>	<u>\$0 to (Unknown)</u>	<u>\$0 to (Unknown)</u>
PARKS AND SOILS STATE SALES TAX FUND(S) (0613 & 0614)				
<u>Loss of Revenue – 620.1039 5. –Sales & Use tax exemptions (p.26)</u>	<u>\$0 to (Unknown)</u>	<u>\$0 to (Unknown)</u>	<u>\$0 to (Unknown)</u>	<u>\$0 to (Unknown)</u>

ESTIMATED NET EFFECT ON PARKS AND SOILS STATE SALES TAX FUND(S)	<u>\$0 to (Unknown)</u>	<u>\$0 to (Unknown)</u>	<u>\$0 to (Unknown)</u>	<u>\$0 to (Unknown)</u>

<u>FISCAL IMPACT – Local Government</u>	FY 2023 (10 Mo.)	FY 2024	FY 2025	Fully Implemented (FY 2028)
LOCAL POLITICAL SUBDIVISIONS				
<u>Loss of Revenue – 620.1039 5. –Sales & Use tax exemptions (p.26)</u>	<u>\$0 to (Unknown)</u>	<u>\$0 to (Unknown)</u>	<u>\$0 to (Unknown)</u>	<u>\$0 to (Unknown)</u>
NET EFFECT ON THE LOCAL POLITICAL SUBDIVISIONS	<u>\$0 to (Unknown)</u>	<u>\$0 to (Unknown)</u>	<u>\$0 to (Unknown)</u>	<u>\$0 to (Unknown)</u>

FISCAL IMPACT – Small Business

Section 30.267 Business Operations with the Russian Federation - No direct fiscal impact to small businesses would be expected as a result of this provision.

Section 44.032 Flood Control - No direct fiscal impact to small businesses would be expected as a result of this provision.

Section 130.029 LLC Political Contributions - No direct fiscal impact to small businesses would be expected as a result of this provision.

Section 143.081 Tax Credit for S-Corporation - Businesses who qualify for the tax credits mentioned in this may be impacted.

Section 143.121 – Medical Marijuana Business Expense Deduction - Businesses who qualify for the tax credits mentioned in these provisions may be impacted.

Section 143.436 "SALT Parity Act"- Businesses who qualify for the tax credits mentioned in this provision may be impacted.

Sections 347.020 - 358.470 LLC Provisions - The fees that small businesses pay to the Office of the Secretary of State could change as a result of this provision.

Section 362.034 Financial Institutions Provisions - No direct fiscal impact to small businesses would be expected as a result of this provision.

Section 407.475 Charitable Organization Requirements - No direct fiscal impact to small businesses would be expected as a result of this provision.

Section 431.201 Business Covenants - No direct fiscal impact to small businesses would be expected as a result of this provision.

Section 620.1039 Research Expenses Tax Credit - This provision could impact any small business that qualifies for the tax credit created, as such small business could reduce or eliminate such small business's tax liability.

FISCAL DESCRIPTION

SS/SCS/SB 931 - This act modifies provisions relating to corporations.

INVESTMENTS IN CERTAIN COMPANIES

Under this act, the State of Missouri, the political subdivisions thereof, and any retirement system established by the state or any political subdivision are prohibited from contracting with or investing in individuals, partnerships, corporations, or other legal entities investing or doing business with Russia. Existing contracts shall not be renewed and shall be cancelled or divested as soon as prudently possible. (Section 30.267)

This provision is substantially similar to SB 1239 (2022), SB 686 (2018), and SB 308 (2017).

MISSOURI DISASTER FUND

This act allows rural electric cooperatives, as defined in the act, to receive funds from the Missouri Disaster Fund. (Section 44.032)

This provision is identical to a provision in the perfected HCS/HB 1734 (2022).

S CORP AND LLC CAMPAIGN CONTRIBUTIONS

The act permits any limited liability company that has not elected to be classified as a corporation under federal law to make campaign contributions to any committee, provided such limited liability company has been in existence for at least one year prior to making such contribution and such entity submits a form to the Missouri Ethics Commission indicating that

such LLC is a legitimate business with a legitimate business interest and is not created for the sole purpose of making campaign contributions. (Section 130.029)

S CORP TAX CREDIT

Current law authorizes a tax credit for the amount of income tax paid to another state for income that is also taxed in this state. This act allows such tax credit to be claimed by resident shareholders of an S corporation for the amount of tax imposed by this state on income earned in another state but not taxed by such state. (Section 143.081)

This provision is identical to SB 410 (2021).

MARIJUANA BUSINESS EXPENSES INCOME TAX DEDUCTION

This act allows taxpayers authorized under the Missouri Constitution to operate a business related to medical marijuana to claim an income tax deduction in an amount equal to any expenditures otherwise allowable as a federal income tax deduction, but that are disallowed for federal purposes because cannabis is a controlled substance under federal law. (Section 143.121)

This act is identical to SB 436 (2021) and to a provision contained in SS/SB 807 (2022), and is substantially similar to HB 877 (2021) and to a provision contained in CCS/HCS/SB 226 (2021) and HCS/SS/SB 283 (2021).

SALT PARITY ACT

This act establishes the "SALT Parity Act".

Current law provides that, in lieu of a corporate income tax on a pass-through entity, shareholders of such pass-through entity shall pay income tax on the shareholder's pro rata share of the entity's income attributable to Missouri. For tax years ending on or after December 31, 2022, this act allows the pass-through entity to elect to pay the tax, as described in the act. The tax shall be equal to the sum of each member's income and loss items, as described in federal law, reduced by a deduction allowed for qualified business income, as described in federal law, and modified by current provisions of state law relating to the taxation of pass-through entities, with such sum multiplied by the highest rate of tax in effect for the state personal income tax.

A nonresident who is a member, as defined in the act, shall not be required to file a tax return for a tax year if, for such tax year, the only income derived from this state for such member is from one or more affected business entities, as defined in the act, that has elected to pay the tax imposed under this act.

Each partnership and S Corporation shall report to each of its members, for each tax year, the member's pro rata share of the tax imposed by this act.

Each taxpayer, including part-year residents, that is subject to the state personal income tax shall be allowed a tax credit if such taxpayer is a member of an affected business entity that elects to pay the tax imposed by this act. The tax credit shall be equal to the taxpayer's pro rata share of the tax paid under this act. Such tax credit shall be nonrefundable, but may be carried forward to subsequent tax years, except that a tax credit authorized for taxes paid to other states shall not be carried forward.

Each corporation that is subject to the state corporate income tax shall be allowed a tax credit if such corporation is a member of an affected business entity that elects to pay the tax imposed by this act. The tax credit shall be equal to the corporation's pro rata share of the tax paid under this act. Such tax credit shall be nonrefundable, but may be carried forward to subsequent tax years.

Partnerships and S corporations may elect to pay the tax imposed under this act by submitting a form to be provided by the Department of Revenue. A separate election shall be made for each tax year. Such election shall be signed either by each member of the electing entity, or by any officer, manager, or member of the electing entity who is authorized to make such election and who attests to having such authorization under penalty of perjury.

An affected business entity shall designate an affected business entity representative for the tax year to act on behalf of the affected business entity in any action required or permitted to be taken by an affected business entity pursuant to this act, a proceeding to protest taxes, an appeal to the Administrative Hearing Commission, or review by the judiciary with respect to such action, and the affected business entity's members shall be bound by those actions. (Section 143.436)

This provision is identical to SB 1154 (2022).

NAMES OF LIMITED LIABILITY COMPANIES

The act prohibits the name of any dissolved or canceled LLC from being used by any other for a period of one year following the dissolution or cancellation. (Section 347.020)

This provision is identical to a provision in SCS/SB 877 (2022), SCS/SB 286 (2021) and SCS/HCS/HB 162 (2021).

LIMITED LIABILITY COMPANIES - INFORMATION STATEMENTS

Every limited liability company (LLC) and foreign limited liability company (foreign LLC) is required to file an information statement with the Secretary of State (SOS) once every 5 years, accompanied by a fee of \$15, or \$5 if filed electronically. The SOS is permitted to administratively cancel the articles of incorporation of an LLC or the registration of a foreign LLC for failure to timely file an information statement. The act provides procedures for allowing a foreign LLC to apply to the SOS to have its registration reinstated following such a cancellation. Procedures are also created allowing an LLC to apply for reinstatement following

the erroneous or accidental filing of a notice of winding up or notice of termination. (Sections 347.044, 347.179, 347.183)

These provisions are identical to provisions in SCS/SB 877 (2022) and are substantially similar to provisions in SCS/SB 286 (2021) and SCS/HCS/HB 162 (2021).

INVOLUNTARY DISSOLUTION OF LLCs

This modifies the procedure by which a court may decree dissolution of an LLC. Specifically, the court may issue such a decree if it determines:

It is not reasonably practicable to carry on the business in conformity with the operating agreement;

Dissolution is reasonably necessary for the protection of the rights or interests of the complaining members;

The business of the limited liability company has been abandoned;

The management of the limited liability company is deadlocked or subject to internal dissension;
or

Those in control of the limited liability company have been found guilty of, or have knowingly countenanced, persistent and pervasive fraud, mismanagement, or abuse of authority. (Section 347.143)

This provision is identical to a provision in SCS/SB 877 (2022).

FILING FEES

The act reduces various filing fees imposed on LLC's and partnerships for filing certain documents with the SOS and provides for reduced fees for filing certain documents in an electronic format. Additionally, the act creates the following new fees:

A fee of \$95 for filing a withdrawal of an erroneously or accidentally filed notice of winding up or articles of termination;

A fee of \$10 for a filing relating to a limited liability series an additional fee of ten dollars for each series effected or \$5 if filing online in an electronic format prescribed by the secretary; and

A fee of \$95 for filing an application for reinstatement or \$45 for filing online in an electronic format prescribed by the secretary. (Sections 347.179, 347.183, 358.460, and 358.470)

These provisions are identical to provisions in SCS/SB 877 (2022) and are substantially similar to provisions in SCS/SB 286 (2021) and SCS/HCS/HB 162 (2021).

SERIES LLCs

For purposes of Series LLCs, the maximum number of designated series that can be affected by a single filing made with the Secretary of State is 50. (Section 347.186)

This provision is identical to a provision in SCS/SB 877 (2022) and SCS/HCS/HB 162 (2021).

MEDICAL MARIJUANA FACILITIES

This act allows any entity that operates as a medical marijuana facility licensed or certified under Article XIV, Section 1 of the Constitution of Missouri to request in writing that a state or local licensing authority or agency, including but not limited to the Department of Health and Senior Services or Department of Revenue, share the entity's application, license, or other regulatory and financial information with a banking institution. Such written request must include a waiver giving authorization for the transfer of the individualized data, information, or records and waiving any confidentiality or privilege that applies to that individualized data, information, or records. A state or local licensing authority or agency is permitted to share the entity's information with the banking institution's state and federal supervisory agencies as well.

This provision is identical to SCS/SB 716 (2022) and SCS/SB 489 (2021).

CHARITABLE ORGANIZATIONS

Under this act, the state shall not impose any additional annual filing or reporting requirements on a charitable organization that are more stringent, restrictive, or expansive than the report already required to be submitted to the Attorney General's office unless such filing or report is specifically required by federal law.

This act shall not apply to labor organizations, state grants or contracts, or investigations by the Attorney General of charitable organizations as set forth in state statute. (Section 407.475)

This provision is identical to SCS/SB 968 (2022) and is substantially similar to HB 1490 (2022), provisions in CCS/HCS/SS/SB 333 (2021), and to HB 245 (2021).

RESTRICTIVE COVENANTS

This act modifies provisions relating to covenants between business entities and employees, distributors, dealers, franchisees, lessees, licensees, or owners or sellers of assets or interests in a business entity.

Currently, a covenant regarding solicitation, hiring, or otherwise interfering with an employee is enforceable if certain criteria are met. This act modifies that provision and requires that a covenant between an employer and an employee promising not to solicit, recruit, hire, induce, persuade, encourage, or otherwise interfere with an employee is enforceable if the covenant is between employers and employees, excluding secretarial or clerical employees with no interest in the business entity, and the post-employment or post-business duration is no more than two years. Additionally, a covenant regarding interference with an employee shall be conclusively presumed to be reasonable if its post-employment or post-business duration is no more than two years, instead of one year.

This act provides that a reasonable covenant in writing promising not to solicit, induce, persuade, encourage, accept business from, or otherwise interfere with, directly or indirectly, a business entity's customers shall be enforceable if the following requirements are met:

- (1) The covenant is limited to customers with whom the employee dealt, as defined in the act; and
- (2) The covenant between a business entity and an employee is not associated with the sale or ownership of assets or any interest in a business entity and does not continue for more than two years following the end of employment;
- (3) The covenant between a business entity and a distributor, dealer, franchisee, lessee of real or personal property, or licensee of a trademark, trade dress, or service mark is not associated with the sale or ownership of assets or any interest in a business entity and does not continue for more than three years following the end of the business relationship; or
- (4) The covenant between a business entity and the owner or seller of assets or interest in a business entity does not continue for more than the longer of either five years or the period during which payments are made as measured from the date of termination, closing, or disposition.

A breach or threatened breach of a covenant between a business entity and the owner or seller of assets or interest in a business entity shall create a conclusive presumption of irreparable harm in the absence of injunctive relief, without the necessity of establishing evidence of any actual or threatened damages or harm. Additionally, a provision in such a covenant in which an employee promises to provide notice to a business entity of the employee's intent to terminate, sell, or otherwise dispose of an asset or interest is presumed to be enforceable if the notice period is no longer than 30 days and the business entity agrees to pay the employee's regular rate of pay and regular benefits during the notice period.

The reasonableness of a covenant shall be determined by the facts and circumstances pertaining to it. Furthermore, this act provides that a covenant shall be presumed to be reasonable if its post-employment, post-termination, post-business relationship, post-sale, or post-disposition duration does not exceed the duration requirements.

No express reference to geographical area is required for the enforceability of a covenant. Additionally, a covenant that is overbroad, overlong, or otherwise unreasonable to protect legitimate business interests of the person seeking enforcement shall be modified by a court, which shall only grant relief reasonably necessary to protect those interests. (Sections 431.201 and 431.202)

This provision is identical to SB 833 (2022) and to provisions in SB 181 (2021), SCS/HCS/HB 1242 (2021), in HB 1008 (2021), in SCS/HCS/HB 1204 (2021), SB 922 (2020), and HB 2684 (2020).

RESEARCH EXPENSES TAX CREDIT

A tax credit for a portion of qualified research expenses, as defined in federal law, expired on December 31, 2004. This act reauthorizes such tax credit, which shall be equal to 15% of qualified research expenses, or 20% of qualified research expenses if done in conjunction with a public or private college or university located in this state, as described in the act. Tax credits shall not be issued for any qualified research expenses that exceed 200% of the taxpayer's average qualified research expenses incurred during the three immediately preceding tax years. Tax credits issued under the act shall not be refundable, but may be carried forward for the twelve succeeding tax years, and may be transferred, sold, or assigned. A taxpayer shall not receive tax credits in excess of \$300,000 in a calendar year.

This act also authorizes a sales tax exemption for the purchase of qualified research and development equipment and property, as defined in the act.

Tax credits issued under the act shall not exceed ten million dollars in any year, provided that five million dollars of such tax credits shall be reserved for minority business enterprises, women's business enterprises, and small businesses, as defined in the act.

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

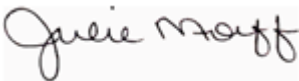
This provision is identical to SB 688 (2022) and is substantially similar to SCS/SB 545 (2021) and HCS/HB 690 (2021), and to a provision contained in SS/SCS/SB 354 (2021).

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 Commerce and Insurance
Department of Economic Development
Department of Natural Resources
Department of Public Safety – State Emergency Management Agency
Department of Revenue
Joint Committee on Administrative Rules

Missouri Department of Conservation
Missouri Department of Transportation
Office of Administration
Office of Administration - Budget and Planning
Office of the Secretary of State
Attorney General's Office
Department of Corrections
Department of Labor and Industrial Relations
Department of Elementary and Secondary Education
Department of Higher Education and Workforce Development
Department of Health and Senior Services
Department of Mental Health
Department of Public Safety
Department of Social Services
Missouri Department of Agriculture
Office of the State Courts Administrator
Hughesville Water/Wastewater
Little Blue Valley Sewer District
Metropolitan St. Louis Sewer District
South River Drainage District
Wayne County PWSD #2
Hancock Street Light District



Julie Morff
Director
April 7, 2022



Ross Strobe
Assistant Director
April 7, 2022