COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4645-01
Bill No.: HB 1278
Subject: Tax Incentives, Economic Development, Tax Credits, Food
Type: Original
Date: January 22, 2018

Bill Summary: This proposal authorizes a tax credit for the establishment of a grocery store in a food desert.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
General Revenue	$0	$0 or (Up to $25,000,000)	$0 or (Up to $25,000,000)
Total Estimated Net Effect on General Revenue	**$0**	**$0 or (Up to $25,000,000)**	**$0 or (Up to $25,000,000)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Total Estimated Net Effect on FTE	**0**	**0**	**0**

☒ Estimated Net Effect (expenditures or reduced revenues) expected to exceed $100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Office of Administration Division of Budget and Planning** (**B&P**) assume tax credits would be provided for taxpayers who establish a new location within a classified food desert within the state. Based on data published by the United States Department of Agriculture, there are 466 census tracts within Missouri that are classified as low-income and have a population that is located at least half a mile from a full-service grocery store in urban areas or ten miles in rural areas. If these businesses were to locate in one of these tracts, the qualifying taxpayer would be able to claim tax credits against their state tax liability up to 50% of their eligible costs after the initial expenses have exceeded $1,000,000 for stores established in charter counties, counties of first classification, or a city not within a county; or $500,000 for stores located in any other county or city. There will be a $25,000,000 cap placed on the tax credit. This proposal also allows any tax credits that have been issued to be transferred, sold, or assigned.

"New location" is for real property acquired after 1/1/2019; therefore, General and Total State Revenues may be reduced as early as FY 2020.

This proposal could reduce General and Total State Revenues up to ($25,000,000) annually and could impact the calculation under Article X, Section 18(e).

Officials at the **Department of Economic Development** (**DED**) assume this creates §135.1620 allowing a taxpayer to claim a tax credit equal to 50% of the taxpayer's eligible expenses for establishing a full-service grocery store in a food desert. The taxpayer cannot claim more than $2.5 million/tax year but the credit may be carried over for 3 years until full credit has been claimed. The total that may be authorized in a calendar year shall not exceed $25 million. This proposal sunsets six years after effective date of January 1, 2019.

This creates a new tax credit program for DED to administer so we will need to hire 1 Economic Development Incentive Specialist III ($53,136). The program is capped at $25 million per year beginning FY 2019.

Oversight notes that each taxpayer claiming the credit could receive up to $2,500,000 in credits. With an annual cap of $25,000,000 it would only take 10 taxpayers to claim the entire credit. Oversight assumes that due to the limited number of taxpayers that could get this credit, DED can absorb the work of this credit with existing resources.

ASSUMPTION (continued)

Oversight notes this proposal requires that any agreement of benefits include a clawback provision (§135.1620.6) that requires all benefits be paid back to the state should the grocery store not be completed within five years or remain open at least ten years. Oversight is unable to determine in the future if this clawback provision would have an impact on the state. Oversight will not show an impact from this portion of the proposal.

Oversight notes the tax credit can only be received by facilities that acquire property after January 1, 2019. Given the time necessary to construct the required facility and receive DED authorization, Oversight will show the fiscal impact beginning in FY 2020. Due to the uncertainty of businesses utilizing this credit, Oversight will show the impact as $0 (no grocery stores created) up to the annual cap of $25,000,000.

Officials at the **Department of Revenue** (**DOR**) assume this proposal creates a new tax credit that allows a taxpayer a credit for 50 percent of eligible expenses for establishing a full-service grocery store in a food desert after initial expenses of either $1 million or $500,000. Taxpayers that require the initial expense of $1 million include those claiming the tax credit for a project in St. Louis City, the four charter counties, and counties of the first class. All other cities and counties require an initial expense of $500,000. This bill defines eligible expenses as those incurred in the construction and development of real property for the purpose of establishing a full-service grocery store in a food desert. Subsection 4 limits the total amount of credits to $25 million in any calendar year.

The DOR requires form changes and programming support to allow the credit. The Personal Tax Section may require one Revenue Processing Technician I ($26,340) for every 6,000 tax credits redeemed. The Corporate Tax Section may require one Revenue Processing Technician I ($26,340) per 6,000 tax credits redeemed, one Revenue Processing Technician I ($26,340) per 4,000 tax credit transfers, and one Revenue Processing Technician I ($26,340) for every 520 SB 1099 compliance mailings and correspondence.

DOR assumes it will be able to absorb the above listed costs. If multiple bills pass which require Department resources and updates, the Department could request additional FTE's and related equipment and expenses through the appropriation process.

ASSUMPTION (continued)

Officials at the **Joint Committee on Administrative Rules** assume there is no fiscal impact from this proposal.

Officials from the **Office of the Secretary of State (SOS)** state 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 $2,500. 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 proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process.

FISCAL IMPACT - State Government	FY 2019 (6 Mo.)	FY 2020	FY 2021
GENERAL REVENUE			
Revenue Reduction - tax credit for a grocery store in a food desert §135.1620	$0	$0 or (Up to $25,000,000)	$0 or (Up to $25,000,000)
ESTIMATED NET EFFECT ON GENERAL REVENUE	**$0**	**$0 or (Up to $25,000,000)**	**$0 or (Up to $25,000,000)**

FISCAL IMPACT - Local Government	FY 2019 (6 Mo.)	FY 2020	FY 2021
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

Small businesses that establish a full-service grocery store in a food desert would be fiscally impacted.

FISCAL DESCRIPTION

This bill authorizes an income tax credit for full-service grocery stores located in a food desert. A "food desert" is defined as a census tract that has a poverty rate of at least 20% or a median family income of less than 80% of the statewide average featuring at least 500 people or 33% of the population located at least one half mile from a full-service grocery store in urban areas or 10 miles in rural areas.

A taxpayer is allowed to claim a tax credit amount equal to 50% of the amount incurred in the construction or development of property for the purpose of establishing a full-service grocery store by the taxpayer after the initial expenses of $1 million if the grocery store is established in a charter county, a first class county, or St. Louis city or $500,000 if established elsewhere. A taxpayer cannot be allowed to claim a tax credit in excess of $2.5 million per taxable year. The credit is non-refundable, but may be carried over to the next three years. The credits can be transferred, sold, or assigned. The total amount of credits authorized cannot exceed $25 million in any calendar year.

A taxpayer must repay the credits if he or she fails to complete construction of a full-service grocery store within five years or fails to operate a full-service grocery store at the same new location for at least 10 consecutive years.

The provisions of the bill will expire six years after the effective date.

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

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Acting Director
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JH:LR:OD