COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4439-01
Bill No.: HB 2110
Subject: Taxation and Revenue - General; Food; Urban Redevelopment; Tax Incentives; Economic Development; Department of Revenue; Department of Economic Development; Tax Credits
Type: Original
Date: February 25, 2020

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

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
General Revenue	Up to ($25,000,000)	Up to ($25,000,000)	Up to ($25,000,000)
Total Estimated Net Effect on General Revenue	**Up to ($25,000,000)**	**Up to ($25,000,000)**	**Up to ($25,000,000)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses. This fiscal note contains 11 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
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 2021	FY 2022	FY 2023
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration - Budget & Planning Division (B&P)** state tax credits would be provided for taxpayers who reestablish a full-service grocery store within a classified food desert within the state. Based on data published in 2017 by the United States Department of Agriculture, there are 243 census tracts within Missouri that are classified as low-income and have a population that is located at least a mile from a full-service grocery store in urban areas or ten miles in rural areas. If these businesses were to reestablish a store 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. 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.

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

Oversight notes B&P assumes this proposed legislation could reduce GR and TSR by an amount up to $25,000,000 annually.

Oversight assumes there are a total of 247 census tracts within Missouri that are classified as low-income and have low-access to a full-service grocery store (1 mile away for urban areas and 10 miles away for rural areas).

Officials from the **Missouri Department of Revenue (DOR)** state a taxpayer shall be allowed to claim a tax credit against the taxpayer's state tax liability in an amount equal to fifty percent (50%) of the taxpayer's eligible expenses for establishing a full-service grocery store in a food desert after initial expenses of: one million dollars ($1,000,000) if the full-service grocery store is established in a charter county, a county of the first classification, or a city not within a county; or five hundred thousand dollars ($500,000) if the full-service grocery store is established in any other county.

The amount of tax credits claimed shall not exceed the amount of the taxpayer's state tax liability in the tax year in which the credit is claimed, and such taxpayer shall not be allowed to claim a tax credit in excess of two million five hundred thousand dollars ($2,500,000) per tax year. However, any tax credit that cannot be claimed in the tax year the contribution was made may be carried over to the next three succeeding tax years until the full credit is claimed.

ASSUMPTION (continued)

The total amount of tax credits that may be authorized under this section shall not exceed twenty-five million dollars ($25,000,000) in any calendar year.

Tax credits issued under the provisions of this section may be transferred, sold, or assigned.

The program authorized under this section shall automatically sunset on December thirty-first six years after the effective date of this section unless reauthorized by an act of the General Assembly; if such program is reauthorized, the program authorized under this section shall automatically sunset on December thirty-first twelve years after the effective date of the reauthorization of this section; the section shall terminate on September first of the calendar year immediately following the calendar year in which the program authorized under this section is sunset; nothing in this subsection shall prevent a taxpayer from claiming a tax credit properly issued before the program was sunset in a tax year after the program is sunset.

Section 135.1620.4 states that the total amount of tax credits that may be authorized under this section shall not exceed twenty-five million dollars ($25,000,000) in any calendar year. The effective date of this proposal is August 28, 2020.

Fiscal Year	Impact to General Revenue
FY21	($25,000,000)
FY22	($25,000,000)
FY23	($25,000,000)

DOR anticipates this proposed legislation will result in an increases significant enough to require the following:

One (1) FTE Revenue Processing Technician I **($24,360 annual salary, $19, 691 annual fringe benefits, and $24,164 (first year) equipment and expense)** for every 6,000 tax credits redeemed, one (1) FTE Revenue Processing Technician I for every 4,000 tax credit transfers with CISCO phones and licenses, one (1) FTE Revenue Processing Technician for every 7,600 errors/correspondence generated and forms and programming changes.

Oversight notes DOR anticipates the need for three (3) FTE Revenue Processing Technicians I and form and programming changes as a result of this proposed legislation.

ASSUMPTION (continued)

Oversight notes this proposed legislation would allow a taxpayer to claim a tax credit not to exceed a taxpayer's state tax liability and that such tax credit may not be awarded to one taxpayer in excess of two million five hundred thousand dollars ($2,500,000). This proposed legislation states the total amount of tax credits that may be authorized shall not exceed twenty-five million dollars ($25,000,000) in any calendar year. Therefore, Oversight assumes the number of taxpayers that could qualify and claim this tax credit each year could be as low as ten (10) [$25,000,000 / $2,500,000].

For purposes of this fiscal note, Oversight assumes DOR can absorb the additional responsibilities of the tax credit created under this proposed legislation with existing resources. However, should the additional responsibilities prove to be significant, DOR may seek additional FTE and equipment and expenses through the appropriation process based on the information provided by DOR.

Officials from the **Missouri Department of Economic Development (DED)** state this proposed legislation establishes a new tax credit for the creation of a grocery store in food desert. The amount of the tax credit is fifty percent (50%) of the eligible expenses, with an annual cap of $25 million per calendar year. DED is to administer the tax credit program created. The tax credit program created under this proposed legislation would sunset six years after the effective date.

DED anticipates, since this is a new tax credit program, the need to hire two (2) FTE Economic Development Incentive Specialist III(s) ($51,808 annual salary/FTE, $19,265 annual fringe benefits/FTE and $27,387 equipment and expense (first year) with additional equipment and expense equal to $11,600 each year thereafter.

Oversight notes this proposed legislation does not specifically indicate an entity that is to administer the tax credit program authorized under this proposed legislation. Rather, this proposed legislation allows for the promulgation of rules to be promulgated jointly by DED and DOR.

Oversight assumes the number of taxpayers that could qualify and claim this tax credit each year could be as low as ten (10) [$25,000,000 / $2,500,000].

For purposes of this fiscal note, Oversight assumes DED can absorb the additional responsibilities of the tax credit created under this proposed legislation with existing resources. However, should the additional responsibilities prove to be significant, DED may seek additional FTE and equipment and expenses through the appropriation process based on the information provided by DED.

ASSUMPTION (continued)

Oversight notes a tax credit is awarded to a taxpayer who re-establishes a full-service grocery store in the same location within a food desert where a formerly operational grocery store has been permanently closed after initial expense are incurred. This proposed legislation defines "food desert" as a census tract that has a poverty rate of at least twenty percent (20%) of the statewide average and were at least five hundred people or thirty-three percent (33%) of the population are located at least a mile away from a full-service grocery store in urban areas or at least ten miles away in rural areas.

Per the United States Department of Agriculture, there are approximately 247 census tracts in Missouri that are low-income and are approximately one mile away from a full-service grocery store in urban areas and ten miles away from a full-service grocery store in rural areas. Oversight provides the number of census tracts per county below:

County	Number of Low-Income/Low Access Tracts 1 Mile (Urban) and 10 Mile (Rural)
Adair	1
Audrain	1
Barry	2
Barton	2
Bates	1
Benton	2
Bollinger	2
Boone	5
Buchanan	5
Butler	4
Caldwell	1
Callaway	1
Camden	2
Cape Girardeau	1
Carter	1
Cass	5
Cedar	2
Clay	7
Clinton	1
Cole	1

ASSUMPTION (continued)

Crawford	2
Dade	1
Dallas	2
Dent	1
Douglas	3
Dunklin	4
Franklin	2
Greene	11
Grundy	2
Harrison	2
Henry	1
Hickory	1
Holt	1
Howard	1
Howell	3
Iron	1
Jackson	34
Jasper	6
Jefferson	8
Johnson	2
Laclede	5
Lafayette	1
Lawrence	2
Lewis	1
Linn	1
Macon	2
Madison	2
Marion	2
McDonald	1
Mercer	1
Montgomery	2
New Madrid	1
Newton	2
Nodaway	2
Oregon	3
Ozark	2

ASSUMPTION (continued)

Pemiscot	2
Pettis	2
Phelps	3
Pike	2
Pulaski	1
Putnam	1
Randolph	2
Ray	1
Reynolds	1
Ripley	3
Saline	1
Schuyler	2
Scott	4
Shannon	1
Shelby	1
St. Francois	3
St. Louis	22
St. Louis City	9
Ste. Genevieve	1
Sullivan	1
Taney	4
Texas	2
Vernon	4
Warren	1
Washington	3
Wayne	3
Wright	2
Grand Total	**247**

Oversight notes this proposed legislation creates clawback provisions for taxpayers that are issued credits authorized under this section but fails to operate the re-established full-service grocery store in the same location for at least five consecutive years. Oversight is unable to determine whether or not this clawback provision will have an impact on the state and will not show an impact for this portion of the proposed legislation.

Oversight notes this proposed legislation states any tax credit that cannot be claimed in the tax year the contribution was made may be carried over to the next three succeeding tax years until the full credit is claimed.

ASSUMPTION (continued)

It is unclear whether "contribution" is to be considered "eligible expenses" or not. If the terms are deemed separate and are not interchangeable, Oversight is unaware of any contribution that would qualify for a tax credit created under this proposed legislation and is unable to determine how this would impact the carry forward provision of this proposed legislation.

Oversight notes this proposed legislation does not have a begin date. Therefore, Oversight assumes individuals could claim the tax credit for the re-establishment of a full-service grocery store in a food desert beginning August 28, 2020 (Fiscal Year 2021).

Oversight assumes this proposed legislation could reduce GR and TSR by an amount up to the maximum amount of credits that may be authorized ($25,000,000). For the purposes of this fiscal note, Oversight will report a revenue reduction to GR by an amount equal to "Up to $25,000,000."

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

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

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 $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 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.

Oversight notes the **Missouri Attorney General's Office** and the **Missouri Department of Health and Senior Services** have stated the proposed legislation would not have a direct fiscal impact on their respective organizations. Oversight does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for these organizations.

FISCAL IMPACT - State Government	FY 2021 (10 Mo.)	FY 2022	FY 2023
GENERAL REVENUE FUND			
Revenue Reduction - Section 135.1620 - Tax credit for the re-establishment of a grocery store in a food desert	Up to ($25,000,000)	Up to ($25,000,000)	Up to ($25,000,000)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**Up to ($25,000,000)**	**Up to ($25,000,000)**	**Up to ($25,000,000)**

FISCAL IMPACT - Local Government	FY 2021 (10 Mo.)	FY 2022	FY 2023
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

This proposed legislation could impact any small business that re-establishes a full-service grocery store in a food desert as they may qualify for a tax credit that could reduce or eliminate their state tax liability. (Section 135.1620)

FISCAL DESCRIPTION

This bill authorizes an income tax credit for the reestablishment of a full-service grocery store located in a food desert, where there was once formerly an operational grocery store. 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 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 reestablishment of 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 nonrefundable, 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.

FISCAL DESCRIPTION (continued)

If a taxpayer fails to fully operate the reestablished full-service grocery store at the same location for at least five consecutive years, the taxpayer must repay the credits in an amount equal to the full value of the tax credit received, less 20% of the full value received for each full year in which the grocery store was fully operational.

These provisions will sunset on December 21, 2026.

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

Office of Administration - Budget & Planning Division
Missouri Department of Revenue
Missouri Department of Economic Development
Joint Committee on Administrative Rules
Missouri Secretary of State's Office
Missouri Attorney General's Office
Missouri Department of Health and Senior Services

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