

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 0621H.01I  
 Bill No.: HB 434  
 Subject: Taxation And Revenue - General; Tax Credits; Revenue, Department Of;  
 Taxation And Revenue - Income; Animals  
 Type: Original  
 Date: January 4, 2021

Bill Summary: This proposal authorizes a tax credit to offset fees from the adoption of rescue animals.

**FISCAL SUMMARY**

| <b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>  |            |                          |            |
|------------------------------------------------------|------------|--------------------------|------------|
| FUND AFFECTED                                        | FY 2022    | FY 2023                  | FY 2024    |
| General Revenue                                      | \$0        | Up to (\$500,000)        | \$0        |
| <b>Total Estimated Net Effect on General Revenue</b> | <b>\$0</b> | <b>Up to (\$500,000)</b> | <b>\$0</b> |

| <b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>              |            |            |            |
|---------------------------------------------------------------|------------|------------|------------|
| FUND AFFECTED                                                 | FY 2022    | FY 2023    | FY 2024    |
|                                                               |            |            |            |
|                                                               |            |            |            |
| <b>Total Estimated Net Effect on <u>Other</u> State Funds</b> | <b>\$0</b> | <b>\$0</b> | <b>\$0</b> |

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 8 pages.

| <b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>                  |                |                |                |
|---------------------------------------------------------------|----------------|----------------|----------------|
| <b>FUND AFFECTED</b>                                          | <b>FY 2022</b> | <b>FY 2023</b> | <b>FY 2024</b> |
|                                                               |                |                |                |
|                                                               |                |                |                |
| <b>Total Estimated Net Effect on <u>All</u> Federal Funds</b> | <b>\$0</b>     | <b>\$0</b>     | <b>\$0</b>     |

| <b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b> |                |                |                |
|-----------------------------------------------------------|----------------|----------------|----------------|
| <b>FUND AFFECTED</b>                                      | <b>FY 2022</b> | <b>FY 2023</b> | <b>FY 2024</b> |
|                                                           |                |                |                |
|                                                           |                |                |                |
| <b>Total Estimated Net Effect on FTE</b>                  | <b>0</b>       | <b>0</b>       | <b>0</b>       |

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

| <b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b> |                |                |                |
|--------------------------------------------|----------------|----------------|----------------|
| <b>FUND AFFECTED</b>                       | <b>FY 2022</b> | <b>FY 2023</b> | <b>FY 2024</b> |
|                                            |                |                |                |
| <b>Local Government</b>                    | <b>\$0</b>     | <b>\$0</b>     | <b>\$0</b>     |

## FISCAL ANALYSIS

### ASSUMPTION

Officials from the **Office of Administration – Budget & Planning Division (B&P)** state this proposed legislation creates a tax credit for the amount of moneys paid by a taxpayer to an animal shelter for a qualified pet adoption, up to \$125. A taxpayer shall not be allowed to claim more than two such tax credits per year.

The cumulative amount of animal adoption tax credits shall not exceed \$500,000. Starting in Fiscal Year 2023, this proposed legislation could reduce Total State Revenue (TSR) by an amount up to \$500,000. B&P does not have data indicating when the cumulative cap might be reached. According to [ASPCA](#), 3.2 million animals are adopted from shelters nationwide each year. Assuming 1.6% of these are in Missouri, and each taxpayer receives \$125 in tax credits, the cumulative cap would be exceeded.

For purposes of this fiscal note, B&P shows the impact of the cumulative cap spread over two fiscal years.

Furthermore, B&P assumes this proposed legislation could impact the calculation under Article X, Section 18(e).

**Oversight** assumes the 1.6% mentioned by B&P is Missouri's "purchasing power" (Fourth Quarter – 2019 - [Missouri's total personal income](#) / [United States' total personal income](#)).

**Oversight** notes B&P reports a reduction to TSR by an amount "up to or could exceed \$250,000" in Fiscal Year 2023 and Fiscal Year 2024, in which the cumulative cap would then be met. B&P also states, when applying Missouri's purchasing power to the nationwide adoption statistics, the cap would be exhausted in the first year the tax credit is available.

Officials from the **Missouri Department of Revenue (DOR)** state, for all tax years beginning on or after January 1, 2022, a taxpayer shall be allowed to claim a tax credit against the taxpayer's state tax liability for a qualified pet adoption made by the taxpayer during the tax year. The amount claimed shall be the amount paid by the taxpayer to the animal shelter for the adoption, not to exceed \$125 per animal. A taxpayer may claim no more than two (2) tax credits per year.

DOR states this tax credit has a cumulative cap of \$500,000 and the credits cannot be sold, transferred, or assigned. The credits cannot be carried forward. DOR assumes this would be a loss to General Revenue (GR) by an amount up to the \$500,000 cumulative cap starting in Fiscal Year 2023 (Tax Year 2022 tax returns will not be filed until after January 1, 2023 – Fiscal Year 2023). DOR assumes the cumulative cap will be reached in the first year.

DOR notes the tax credit would be administered by DOR.

Therefore, DOR requires one (1) FTE Associate Customer Service Representative (\$24,360 salary - \$20,300 fringe benefits [second year]) for every 4,000 apportioned tax credits redeemed and one (1) FTE Associate Customer Service Representative for every 7,600 errors/correspondence generated.

DOR also anticipates a one-time cost equal to \$2,000 for form(s) and system updates.

**Oversight** notes this proposed legislation does not specifically state that, in the event that the total amount of tax credits claimed by taxpayers exceed the cumulative cap of \$500,000, the amount redeemed shall be apportioned equally to all eligible taxpayers claiming the tax credit.

However, since the legislation does state the cumulative amount of tax credits allowed to “*all taxpayers under this section*” shall not exceed \$500,000, Oversight assumes the credit could be considered and treated as an apportioned tax credit.

**Oversight** notes the minimum number of taxpayers that could claim the tax credit could be as low as 2,000 ( $\$500,000 \text{ cap} / (\$125 \times 2 \text{ (tax credit for two qualified adoptions)})$ ). Oversight further notes, should only one taxpayer make two qualified adoptions, while all other taxpayers make one qualified adoption, the total number of redemptions would be less than 4,000.

Furthermore, Oversight assumes the \$500,000 cap is the program cap. Therefore, as a result of the previous paragraph and since B&P and DOR both assume the cumulative cap (program cap) could be met during the first year of implementation (one year of administration), Oversight assumes DOR can absorb the responsibilities associated with the tax credit program with existing resources. Should DOR experience the number of redemptions and/or errors and correspondence to justify the need for the FTE(s), DOR may seek additional FTE through the appropriations process.

Below, Oversight provides scenarios should this tax credit be considered an apportioned tax credit with a non-renewing cap of \$500,000.

**Scenario 1:** Total tax credits claimed in the first year available (Tax Year 2022) meet or exceed the cap. Provided the total tax credits claimed exceed the cap, each taxpayer claiming the tax credit would receive an apportioned (reduced) amount calculated on the \$500,000 cap. For purposes of this fiscal note, Oversight assumes, since the cap has been exhausted, no further tax credits may be claimed in future years.

**Scenario 2:** Total tax credits claimed in the first year do not exceed the cap. For purposes of this scenario, Oversight suggests \$450,000 was claimed in the first year. This would permit taxpayers who claimed the tax credit in the first year to receive their tax credit in full. Then, the remaining \$50,000 worth of tax credits would be available in the second year. Provided the second year

recognized a similar amount of claims (\$450,000), each taxpayer claiming the credit in the second year would receive an apportioned (reduced) amount calculated on the remaining \$50,000 available. For purposes of this scenario, Oversight assumes, since the cap has been exhausted, no further tax credits may be claimed in future years.

**Oversight** notes the proposed legislation does not specifically state whether the tax credits created are limited to a taxpayer’s state tax liability or whether the tax credits may be refunded if the tax credit is greater than a taxpayer’s state tax liability. Since the legislation states “any tax credit claimed for a qualified pet adoption *shall* be equal to the qualified amount for such qualified adoption,” Oversight assumes the tax credit will be refundable.

**Oversight** contacted the Jefferson City Animal Shelter to obtain the number of animals adopted within one calendar year. Per the information provided, roughly 765 cats, 626 dogs, and 47 other animals were adopted in 2019 for a total of 1,438 adoptions.

Another [source](#) suggests there are approximately four (4) pet shelters for every 100,000 people in Missouri. This suggests there are approximately 61 pet shelters operating in Missouri ([6,137,428](#) / 100,000). If each pet shelter observed similar pet adoption statistics as Jefferson City’s animal shelter, approximately 88,256 pets would be adopted each year (61 x 1,438).

**Oversight** notes the cost for pet adoption(s) vary per pet and per location. For purposes of this fiscal note, Oversight provides the estimated amount of tax credits claimed at various adoption prices, assuming the cost for all pet adoptions are the same.

| Estimated Number of Pets Adopted in Missouri (Based on JC Animal Shelter Statistics and Missouri's Populations) | Cost of Adoption Per Animal | Estimated Total Amount of Tax Credits Claimed |
|-----------------------------------------------------------------------------------------------------------------|-----------------------------|-----------------------------------------------|
| 88,256                                                                                                          | \$25                        | \$2,206,400                                   |
|                                                                                                                 | \$50                        | \$4,412,800                                   |
|                                                                                                                 | \$75                        | \$6,619,200                                   |
|                                                                                                                 | \$100                       | \$8,825,600                                   |
|                                                                                                                 | \$125                       | \$11,032,000                                  |

As a result of the information provided above, for purposes of this fiscal note, Oversight assumes the cap will be reached in the first year the tax credit is available. Oversight will show a reduction to GR by an amount “Up to \$500,000” in Fiscal Year 2023. This proposed legislation awards the tax credits for all tax years beginning on or after January 1, 2022. Tax Year 2022 tax returns will not be filed until after January 1, 2023 (Fiscal Year 2023).

**Oversight** notes the tax credit created would automatically sunset six years after the effective date of this section unless reauthorized by the General Assembly.

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. 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 SOS for administrative rules is less than \$5,000. SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, 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 SOS can sustain with our core budget. Therefore, 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.

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

Officials from the **Missouri Department of Agriculture** do not anticipate this proposed legislation will cause a fiscal impact on their organization. Oversight does not have any information to the contrary. Therefore, Oversight will not show a fiscal impact for this organization.

| <u>FISCAL IMPACT –</u><br><u>State Government</u>                                            | FY 2022<br>(10 Mo.) | FY 2023           | FY 2024 |
|----------------------------------------------------------------------------------------------|---------------------|-------------------|---------|
| <b>GENERAL<br/>REVENUE FUND</b>                                                              |                     |                   |         |
| <u>Revenue Reduction –</u><br>(Section 135.790) tax<br>credit for qualified<br>pet adoptions | \$0                 | Up to (\$500,000) | \$0     |
| <b>ESTIMATED NET<br/>EFFECT ON<br/>GENERAL<br/>REVENUE</b>                                   | \$0                 | Up to (\$500,000) | \$0     |

| <u>FISCAL IMPACT –</u><br><u>Local Government</u> | FY 2022<br>(10 Mo.) | FY 2023    | FY 2024    |
|---------------------------------------------------|---------------------|------------|------------|
|                                                   |                     |            |            |
|                                                   | <u>\$0</u>          | <u>\$0</u> | <u>\$0</u> |

FISCAL IMPACT – Small Business

This proposed legislation could impact any small business that makes a qualified pet adoption as such small business would qualify for a tax credit that would reduce or eliminate the small business's tax liability.

FISCAL DESCRIPTION

Beginning January 1, 2022, a taxpayer may claim a tax credit for any adoption of an animal from an animal shelter. The amount of the tax credit will be for the total amount of money paid to the shelter for a pet adoption, up to \$125. A taxpayer may not claim more than two of the tax credits authorized under this bill per year, regardless of whether the taxpayer makes more than two pet adoptions.

The cumulative amount of the tax credits allowed under this bill will not exceed \$500,000, and the credits may not be assigned, transferred, sold, conveyed, or carried forward to any subsequent tax year.

The Department of Revenue will promulgate all necessary rules and regulations to administer the provisions of this bill.

The provisions of this bill will automatically sunset six years after the effective date unless reauthorized by the General Assembly. (Section 135.790)

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

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SOURCES OF INFORMATION

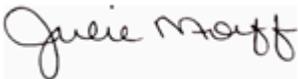
Office of Administration – Budget & Planning Division

Missouri Department of Revenue

Missouri Department of Agriculture

Office of the Secretary of State

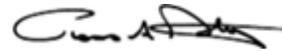
Joint Committee on Administrative Rules



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