

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3044-01
Bill No.: HB 1268
Subject: Taxation and Revenue - General; Taxation and Revenue - Income; Children and Minors; Business and Commerce; Tax Credits; Department of Health and Senior Services
Type: Original
Date: December 30, 2019

Bill Summary: This proposal authorizes a tax credit for providing child care in a child care desert

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
General Revenue	(Greater than \$100,000)	(Could exceed \$2,100,000)	(Could exceed \$2,100,000)
Total Estimated Net Effect on General Revenue	(Greater than \$100,000)	(Could exceed \$2,100,000)	(Could exceed \$2,100,000)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
Total Estimated Net Effect on <u>Other</u> 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 2021	FY 2022	FY 2023
Total Estimated Net Effect on <u>All</u> 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

Section 135.555- Tax credit created for operators of child care facilities in a child care desert

Officials from the **Office of Administration - Division of Budget & Planning** state this proposal creates a tax credit for childcare providers located within a childcare desert. A childcare desert is defined as a zip code containing at least thirty (30) children five years of age or younger and where childcare demand exceeds the childcare capacity available. It creates three tiers determining what percent of a childcare provider's income is eligible for the credit with a maximum allowable credit per taxpayer of \$50,000 per tax year. Issuances of these tax credits are capped at \$2,000,000 annually. This proposal could, therefore, reduce general and total state revenues by up to \$2,000,000 annually, beginning in FY 2022.

This proposal would impact the calculations under Article X, Section 18(e).

Officials from the **Missouri Department of Revenue (DOR)** state this proposed legislation would allow, for all tax years beginning on or after January 1, 2021, a taxpayer that operates a child care facility in a child care desert to claim a tax credit against such taxpayer's state tax liability. A taxpayer may claim up to twenty five percent (25%) of the taxpayer's income attributable to providing child care per tax year, if child care demand is at least three times greater than child care capacity; the taxpayer can get fifteen percent (15%) if demand is two times greater than capacity and the taxpayer can get five percent (5%) if demand is less than two times greater than capacity. In addition, the credit authorized under this proposed section shall not exceed the taxpayer's tax liability and cannot be greater than \$50,000 per year. The cumulative amount of tax credits that can be authorized in one fiscal year cannot exceed \$2 million.

DOR notes this proposal begins January 1, 2021 and the first tax returns will be filed after January 1, 2022.

DOR estimates the following decrease to Total State Revenue (TSR) specific to General Revenue (GR) per fiscal year:

FY21	FY22	FY23
\$0	(\$2,000,000)	(\$2,000,000)

DOR's Personal Tax Division requires two (2) Revenue Processing Technicians; one for every 6,000 tax credits redeemed under this section and one for every 7,600 errors/pieces of correspondence generated.

ASSUMPTION (continued)

Oversight notes this proposed legislation would allow a taxpayer to claim up to \$50,000 in tax credits authorized under this section. Therefore, the number of taxpayers receiving the credits could be as low as 40. Oversight assumes DOR will be able to administer this new tax credit with existing resources. Should DOR experience the number of additional tax credit redemptions and/or errors and correspondence to justify the FTE(s), they could seek the FTE(s) through the appropriations process.

Oversight notes, based on information published on the Missouri Department of Health and Senior Services' (DHSS) website, there are an estimated 1,822 child care centers, 1,745 family homes, 127 group homes, 611 license exempt facilities, and 856 registered family homes reported in Missouri whose owner/operator(s) may be eligible for the tax credit.

Oversight also notes, based on information published by the Missouri Census Data Center, in conjunction with zip code information per county in Missouri, the average number of children aged 0-5 within each zip code in Missouri meets or exceeds the 30 children required within the definition of "Child Care Desert" pursuant to this proposed legislation. Oversight is unable to determine the true child care demand in each zip code but will, for purposes of this fiscal note, assume child care demand exceeds the child care capacity.

Therefore, Oversight estimates this proposed legislation could reduce GR and TSR by the \$2 million limit each fiscal year as the average number of children aged 0-5 in each Missouri zip code meets or exceeds the minimum number created under the definition of "Child Care Desert" pursuant to Section 135.555. This would allow all taxpayers operating qualifying child care facilities to qualify for the tax credit.

Oversight notes the amount of tax credits to be awarded to qualifying taxpayer is based on the following tiered formula:

Amount of Child Care Demand in excess of Child Care Capacity	Amount of Tax Credit Awarded to Taxpayer Operating Child Care Facility in Child Care Desert
At least 3x	25% of taxpayer's income attributable to providing child care
At least 2x but less than 3x	15% of taxpayer's income attributable to providing child care
At least 1x but less than 2x	5% of taxpayer's income attributable to providing child care

Oversight notes this tax credit is capped at \$2 million for each fiscal year. No tax credit issued under this proposed legislation can exceed the taxpayer's state tax liability and the tax credit may not be refunded. The tax credit proposed would sunset on December 31st six years after the effective date of this proposed legislation.

Officials from the **Missouri Department of Commerce and Insurance (DCI)** assume a potential unknown negative impact of premium tax revenues (up to the tax credit limit established in the bill) as a result of the addition of the child care tax credit. Premium tax revenue

ASSUMPTION (continued)

is split 50/50 between General Revenue and the 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 tax credit proposed.

DCI will require minimal contract computer programming to add this new tax credit to the premium tax database and can do so with existing appropriation. However, should multiple bills pass that would require additional updates to the premium tax database, DCI may need to request more expense and equipment appropriation through the budget process.

Officials from the **Missouri Department of Health and Senior Services (DHSS)** state Section 135.555 of the proposed legislation requires DHSS to annually determine which areas of the state are child care deserts. DHSS shall publish such determination and notify child care facilities within child care deserts that they qualify for a tax credit under this section.

Current research focused on "child care deserts" is targeted toward regulated child care facilities (daycares). It is not focused on child-placing agencies, residential child care facilities, foster homes, or employment agencies that refer to child care workers as defined under section 289.005, RSMo. The inclusion of these agencies and facilities are not a part of the research and exceed the scope of the "child care desert" definition. DHSS only has statutory authority to regulate licensed child care facilities, nursery schools, and child care facilities operated by religious organizations.

DHSS captures data that includes the total capacity, minimum age, maximum age, and children under age two and over age two. DHSS does not capture specific data identifying children five years and younger.

DHSS is unable to determine a cost for this legislation, due to the definition of child care deserts and the requirements of the data; however, DHSS does project the cost to be greater than \$100,000 annually.

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.

Oversight notes the **Missouri Department of Social Services** has stated the proposed legislation 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 in the fiscal note for this organization.

ASSUMPTION (continued)

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.

<u>FISCAL IMPACT - State Government</u>	FY 2021	FY 2022	FY 2023
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GENERAL REVENUE FUND

Revenue Reduction - (Section 135.555)
 Creation of the tax credit for child care providers operating within a child care desert

\$0	(Up to 2,000,000)	(Up to \$2,000,000)
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Cost - DHSS- (Section 135.555)
 Determining child care deserts

<u>(Greater than \$100,000)</u>	<u>(Greater than \$100,000)</u>	<u>(Greater than \$100,000)</u>
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**ESTIMATED NET EFFECT ON
 GENERAL REVENUE**

<u>(Greater than \$100,000)</u>	<u>(Could exceed \$2,100,000)</u>	<u>(Could exceed \$2,100,000)</u>
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<u>FISCAL IMPACT - Local Government</u>	FY 2021	FY 2022	FY 2023
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<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
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FISCAL IMPACT - Small Business

This proposed legislation could impact any small business that operates a child care facility within a child care desert. Such small businesses could be awarded a tax credit that would reduce or eliminate state tax liabilities. (Section 135.555)

FISCAL DESCRIPTION

Beginning January 1, 2021, this bill establishes a tax credit for individuals who operate a child care facility in a child care desert. A child care desert is a ZIP code that has at least 30 children five years of age or younger and where the child care demand exceeds the child care capacity. In areas where child care demand is at least three times greater than the child care capacity, a taxpayer can claim a tax credit equal to 25% of income from providing child care. In areas where child care demand is at least two times greater but less than three times than the child care capacity, a taxpayer can claim a tax credit equal to 15% of income from providing child care. In areas where child care demand is at least one time but less than two times the child care capacity, a taxpayer can claim a tax credit equal to 5% of income from providing child care. A taxpayer cannot claim a tax credit for more than \$50,000 per year. The tax credit is nonrefundable and cannot be transferred, sold, or assigned. The total amount of child care desert tax credits cannot exceed \$2 million per year. The Department of Health and Senior Services must annually determine which areas are identified as a child care desert and notify the facilities of their qualification for a child care desert tax credit. This bill sunsets on December 31, six years after the effective date. (Section 135.555)

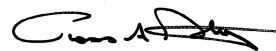
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of Administration - Division of Budget & Planning
Missouri Department of Revenue
Missouri Department of Commerce and Insurance
Missouri Department of Health and Senior Services
Missouri Department of Social Services
Joint Committee on Administrative Rules
Missouri Secretary of State's Office



Julie Morff
Director
December 30, 2019



Ross Strope
Assistant Director
December 30, 2019