# COMMITTEE ON LEGISLATIVE RESEARCH
# OVERSIGHT DIVISION

## FISCAL NOTE

L.R. No.: 1643-06
Bill No.: SB 596
Subject: Economic Development; Taxation and Revenue.
Type: Original
Date: March 17, 2003

---

## FISCAL SUMMARY

| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2004 | FY 2005 | FY 2006 |
| General Revenue | ($107,579 to $3,107,579) | ($65,198 to ($3,065,198) | ($66,888 to $3,066,888) |
| | | | |
| **Total Estimated Net Effect on General Revenue Fund *** | **($107,579 to $3,107,579)** | **($65,198 to $3,065,198)** | **($66,888 to $3,066,888)** |

| ESTIMATED NET EFFECT ON OTHER STATE FUNDS | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2004 | FY 2005 | FY 2006 |
| Insurance Dedicated | ($2,560) | $0 | $0 |
| | | | |
| **Total Estimated Net Effect on Other State Funds *** | **($2,560)** | **$0** | **$0** |

*** The fiscal impact could be divided between the General Revenue Fund and the County Foreign Insurance Fund (which ultimately goes to local school districts) if some of the tax credits are utilized against insurance premium taxes.**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 6 pages.

| ESTIMATED NET EFFECT ON FEDERAL FUNDS | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2004 | FY 2005 | FY 2006 |
| None | | | |
| | | | |
| **Total Estimated Net Effect on All Federal Funds** | **$0** | **$0** | **$0** |

| ESTIMATED NET EFFECT ON LOCAL FUNDS | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2004 | FY 2005 | FY 2006 |
| **Local Government*** | **$0** | **$0** | **$0** |

*** The fiscal impact could be divided between the General Revenue Fund and the County Foreign Insurance Fund (which ultimately goes to local school districts) if some of the tax credits are utilized against insurance premium taxes.**

## FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of the Secretary of State - Corporations Division** assumes this proposal would not fiscally impact their agency.

Officials from the **Office of Secretary of State - Administrative Rules Division (SOS)** assume there would be costs due to additional publishing duties related to the Department of Economic Development's authority to promulgate rules, regulations, and forms. SOS estimates the division could require approximately 14 new pages of regulations in the Code of State Regulations at a cost of $27.00 per page, and 21 new pages in the Missouri Register at a cost of $23.00 per page. Costs due to this proposal are estimated to be $861, however, the actual fiscal impact would be dependent upon the actual rule-making authority and may be more or less. Financial impact in subsequent fiscal years would depend entirely on the number, length, and frequency of the rules filed, amended, rescinded, or withdrawn. SOS does not anticipate the need for additional staff as a result of this proposal, however, the enactment of more than one similar proposal may, in the aggregate, necessitate additional staff.

ASSUMPTION (continued)

**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. Any decisions to raise fees to defray costs would likely be made in subsequent fiscal years.

Officials from the **Department of Insurance (INS)** state there are 1,658 taxable insurance companies in Missouri. If each of them qualified for this $5,000 credit, a total of $8,290,000 would be deducted from premium tax. Premium tax revenue is split 50/50 between General Revenue and the county Foreign Insurance Fund for all insurance companies other than domiciled stock property and casualty companies. Stock property and casualty companies pay premium tax to the County Stock Fund. The County Stock Fund is later distributed to the counties and schools where the principal office of the company is located and the blind pension fund according to the same ratio as property tax. County Foreign Insurance funds are later distributed to school districts throughout the state. Loss to GR, County Foreign and County Stock is unknown but could be as much as $8,290,000 for all funds.

INS assumes they will incur contract programming expenses of $2,560 in FY 2004 to establish this new tax credit. This expense would be paid from the Insurance Dedicated Fund.

Officials from the **Department of Revenue (DOR)** state the number of credits authorized by this legislation is unknown. DOR assumes it will need one Tax Processing Technician for every 10,000 additional credits claimed. DOR's Information Technology Division will need to make changes to the MINITS, COINS, Speedup, and E-File systems that is estimated to take 1,384 hours of programming at a cost of $46,170.

DOR assumes the need for an additional FTE Tax Processing Tech I (at $21,192 annually). DOR estimates a total cost for the proposal, including the new FTE and the programming expenses, to be $78,663 in the first year, and then roughly $40,000 per year thereafter.

**Oversight** assumes that fewer than 10,000 claims would be filed for this new tax credit, therefore, DOR would not require an additional FTE. However, if Oversight is incorrect in this assumption, DOR could request the additional FTE through the normal budgetary process.

Officials from the **Office of Administration - Budget and Planning (BAP)** states they have no empirical basis for estimating how many business startups and/or expansions would take place as a result of this proposal. Additional tax credits would negatively impact general revenue. This proposal

ASSUMPTION (continued)

would have no fiscal impact on BAP.

Officials from the **Department of Economic Development (DED)** state they would have to administer and promote the new program. Letters of intent would have to be filed with DED to receive the tax credit. The credit cannot be known at the time the letter of intent is filed, but DED has to limit the credits to $3 million per year and no more than $5,000 per taxpayer per year for three years.

DED assumes the need for one Economic Development Incentive Coordinator (at $43,308 annually) plus associated expenses to administer the program. DED assumes costs totaling roughly $75,000 per year to administer the program. DED assumes that all $3 million in credits will be issued each year and could be claimed starting in FY 2004.

**Oversight** has, for fiscal note purposes only, changed the starting salary for the Economic Development Incentive Coordinator to correspond to other such positions' salary within DED. This decision reflects a study of actual starting salaries for new state employees for a six month period and the policy of the Oversight Subcommittee of the Joint Committee on Legislative Research.

**Oversight** has ranged the loss of revenue resulting from the tax credit from $0 (if no credits are utilized) to the annual cap of $3 million. Oversight has not reflected any indirect positive fiscal impact that may occur because of this new program.

**This proposal may result in a loss of Total State Revenue**.

| FISCAL IMPACT - State Government | FY 2004 (10 Mo.) | FY 2005 | FY 2006 |
|---|---|---|---|
| **INSURANCE DEDICATED FUND** | | | |
| Cost - Department of Insurance | | | |
| Contract programming expense | ($2,560) | $0 | $0 |
| **ESTIMATED NET EFFECT TO THE INSURANCE DEDICATED FUND** | **($2,560)** | **$0** | **$0** |

**GENERAL REVENUE FUND**

| | | | |
|---|---|---|---|
| Cost - Department of Revenue | | | |
| Programming expenses | ($46,170) | $0 | $0 |
| | | | |
| Cost - DED | | | |
| Personal Service (1 FTE) | ($30,760) | ($37,835) | ($38,781) |
| Fringe Benefits | ($12,449) | ($15,312) | ($15,695) |
| Expense and Equipment | ($18,200) | ($12,051) | ($12,412) |
| Total Cost - DED | ($61,409) | ($65,198) | ($66,888) |
| | | | |
| Loss - Tax credit program | $0 to ($3,000,000) | $0 to ($3,000,000) | $0 to ($3,000,000) |
| | | | |
| **ESTIMATED NET EFFECT ON THE GENERAL REVENUE FUND *** | **($107,579 TO $3,107,579)** | **($65,198 TO $3,065,198)** | **($66,888 TO $3,066,888)** |

*** Note: the fiscal impact could be divided between the General Revenue Fund and the County Foreign Insurance Fund (which ultimately goes to local school districts) if some of the tax credits are utilized against insurance premium taxes.**

| FISCAL IMPACT - Local Government | FY 2004 (10 Mo.) | FY 2005 | FY 2006 |
|---|---|---|---|
| | **$0** | **$0** | **$0** |

FISCAL IMPACT - Small Business

Small businesses that can claim the new tax credit could be fiscally impacted by the proposal.

DESCRIPTION

This proposal gives a tax credit to registered sole proprietorships, certain registered corporations, and certain registered insurance companies that have either started a new business or expanded an existing
business that employs 80 people or less a year. The credit would be available for the first three years following the expansion or establishment of the business and would be for an amount equal to ten percent of the new revenue produced by the business, not to exceed five thousand, against the tax imposed on it pursuant to Chapter 143 or 148, RSMo. The credit may be carried forward to subsequent tax years but not beyond the third tax year following the expansion of establishment of the business. To be eligible for the credit, the business must register with the Secretary of State and file a letter or intent with the Department of Economic Development within ninety days of commencement of operations at the new or expanded business. The maximum number of tax credits certified in any fiscal year shall not exceed three million dollars. If properly acquired tax credits exceed three million, each eligible business shall receive a pro rata share of the three million. The Director of Economic Development shall promulgate rules in accordance with this act.

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
Department of Insurance
Office of the Secretary of State
Office of Administration - Budget and Planning

Mickey Wilson

MICKEY WILSON, CPA
DIRECTOR
MARCH 17, 2003

RAS:LR:OD (12/02)