

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1990-06
Bill No.: HCS for SB 668
Subject: Agricultural and Animals; Taxation and Revenue - General
Type: Original
Date: May 6, 2003

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
General Revenue	(\$340,215 to Unknown)	(\$340,215 to Unknown)	(\$340,215 to Unknown)
Total Estimated Net Effect on General Revenue Fund*	(\$340,215 to Unknown)	(\$340,215 to Unknown)	(\$340,215 to Unknown)

*Unknown could exceed \$100,000, annually.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
State Schools Money Fund*	\$0	\$0	\$0
Total Estimated Net Effect on Other State Funds	\$0	\$0	\$0

*Unknown based on Foundation Formula calculation.

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 9 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
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
County Stock Fund*	Unknown less than \$303,633	Unknown less than \$303,633	Unknown less than \$303,633
County Foreign Insurance Fund*	Unknown less than \$36,582	Unknown less than \$36,582	Unknown less than \$36,582
School Districts	\$0	\$0	\$0
Local Government	Unknown less than \$340,215	Unknown less than \$340,215	Unknown less than \$340,215

*Unknown based on Foundation Formula calculation.

FISCAL ANALYSIS

ASSUMPTION

In response to a similar proposal from this year, officials with **Department of Economic Development** and **State Treasurers Office** each assumed this proposal would have no fiscal impact on their agencies.

In response to a similar proposal from this year, officials with **Office of Administrators (OA)-Budget and Planning** assumed this proposal could have a negative impact on the state's AAA bond rating. **Oversight** notes this proposal could have a possible negative impact on the state's bond rating. This impact could be realized in higher interest rates in future bond issues. However, this possible negative impact is not a direct cost associated with this proposal and is not included in the fiscal summary.

ASSUMPTION (continued)

Section 143.121

This section of the proposal could permit a carry forward of certain net operating losses.

Officials with the **Department of Revenue (DOR)** assume this section of the proposal could change the net operating loss (NOL) provisions by allowing any taxpayer who was not allowed to carry back the loss due to legislation changes in SB 1248 (last session) to carry forward the loss for up to 20 years. It also excludes farmers from the NOL add back provisions. DOR further assumes this section would have minimal administrative impact to their agency.

Oversight assumes this legislation allows a taxpayer to carry forward certain net operating losses disallowed in last year's Senate Bill 1248. Since no costs or revenues were included in SB 1248 for reducing the limits on a NOL, **Oversight** assumes this proposal would create an unknown loss of revenue that could exceed \$100,000 in any year.

Section 147.120

This section of the proposal could change the time period for a claim for credit or refund of an overpayment of franchise tax from 2 years to 3 years.

DOR assumes this substitute increases the statute of limitations on franchise tax refunds to three years from two years. In response to a similar proposal from this year, DOR assumed a minimal decrease in revenue from the additional year available to file for a credit or refund on franchise taxes. DOR assumes no administrative impact from this portion of the proposal.

DOR assumed the Department of Agriculture or the Office of Administration, Budget and Planning should estimate the impact of this proposal.

Oversight assumes this section could create a slight decrease in revenue due to the increase in the time period to file for a credit or refund of an overpayment for franchise tax. The amount of additional refunds is unknown and **Oversight** will show this revenue impact as a negative unknown (less than \$100,000) to all affected years.

Section 148.330

Officials with the **Department of Insurance (INS)** assume this section could allow agricultural

ASSUMPTION (continued)

utilization tax credits and new generation cooperative or new generation processing entity tax credits to reduce only the General Revenue Fund and not reduce any moneys received by the County Foreign Insurance Fund and County Stock Fund. Section 148.340 and Section 148.350 are the taxing statutes for foreign insurance companies (those not organized under MO law). Section 148.320 and 148.330 are the taxing statutes for MO domiciled stock property and casualty insurance companies.

INS further notes that for the 2001 tax year, agricultural utilization credits of \$303,633 were taken by county stock companies, and \$13,616 in agricultural utilization and \$59,548 new generation cooperative tax credits were taken by other MO domiciled companies. The \$303,633 credit taken by county stock companies were taken against the county stock fund. Legislation changes the impact of these credits from county stock to GR only. This is an increase cost to GR when previously the credit was a reduction to the county stock fund. The \$73,164 (\$13,616 + \$59,548) credit taken by other Mo domiciled companies impacted both GR and County Foreign Insurance Fund (50/50). Legislation changes the impact of these credits from GR and County Foreign Insurance fund to only GR. This is an increase cost to GR when previously the credit was a reduction to both funds.

Officials from the **Department of Elementary and Secondary Education** assume this proposal would not fiscally impact their agency

Sections 348.430 and 348.432

Officials with DOR assume this section of the proposal extends the new generation cooperative tax credit to include eligible new generation processing entities and allows the tax credit to be applied to estimated tax payments.

DOR does not anticipate a large increase in tax credits and will not request additional FTE at this time. However, if this assumption is incorrect, DOR will need one Tax Processing Technician I for every additional 10,000 credits received. Also, depending on the amount of tracking involved, the individual income tax system will have to be updated.

In response to a similar proposal from this year, officials with the **Department of Agriculture (AGR)** stated that this proposal's change to Section 348.432 4 corrects legislative action from last session by adding "eligible new generation processing entity". Quarterly filing of tax credits would not affect this agency, but might set a precedence for all tax credits to be used quarterly.

ASSUMPTION (continued)

According to a report previously provided by the Department of Agriculture, the number of credits issued in the past three fiscal years for the Agricultural Product Utilization Contributor Tax Credit (Section 348.430 RSMo) and the New Generation Cooperative Incentive Tax Credit (Section 348.432) have been;

	Section 348.430	Section 348.432	Total
FY 2000	\$1,537,931	\$3,000,000	\$4,537,931
FY 2001	\$1,299,518	\$1,500,000	\$2,799,518
FY 2002	\$1,115,185	\$3,398,000	\$4,513,185

Officials with **Department of Insurance (INS)** assume these sections could allow the agricultural utilization tax credit to reduce the annual tax or the estimated quarterly tax prepayment. Section 348.432.3 authorizes the new generation cooperative or new generation processing entity tax reduction on quarterly tax prepayments or annual tax.

Currently these tax credits are only allowed as credits shown on the annual premium tax return and cannot be used against the quarterly tax prepayments.

By allowing tax credits to be taken on a quarterly basis, unknown interest for up to 13 months to GR would be lost due to quarterly payments being reduced. INS also assumes that more individuals and entities would purchase and use these tax credits if allowed to take them against quarterly tax payments.

INS would require contract computer programming of \$54,400 (640 hours @ \$85.00) to make modifications to the premium tax system so credits could be processed quarterly. Updates have been made to the premium tax system during this past year which enables INS to make these required modifications with fewer programming hours than previously estimated in last years fiscal note.

Oversight assumes that a small number of insurance companies would claim the tax credits quarterly. INS could absorb costs related to this proposal by maintaining a manual or personal computer based system for these insurance companies that take the tax credits rather than reprogramming their system. Should more than a few insurance companies take the quarterly tax credit or should other existing premium tax credits be allowed to be taken quarterly, the INS could request additional funding through the appropriation process.

ASSUMPTION (continued)

This proposal could decrease total state revenue.

<u>FISCAL IMPACT - State Government</u>	FY 2004 (10 Mo.)	FY 2005	FY 2006
GENERAL REVENUE FUND			
<u>Loss - General Revenue Fund</u>			
Carryforward of NOL*	(Unknown)	(Unknown)	(Unknown)
Increase in Franchise Tax refunds**	(Unknown)	(Unknown)	(Unknown)
Credit increase from local district funds	<u>(\$340,215)</u>	<u>(\$340,215)</u>	<u>(\$340,215)</u>
<u>Total Loss -General Revenue Fund</u>	<u>(\$340,215 to Unknown)</u>	<u>(\$340,215 to Unknown)</u>	<u>(\$340,215 to Unknown)</u>
<u>Savings-General Revenue Fund</u>			
State School Money Fund***	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>
NET ESTIMATED EFFECT ON GENERAL REVENUE	<u>(\$340,215 to Unknown)</u>	<u>(\$340,215 to Unknown)</u>	<u>(\$340,215 to Unknown)</u>

*Unknown expected to exceed \$100,000, annually.

**Unknown expected to exceed \$100,000, annually.

***Unknown based on Foundation Formula calculation

STATE SCHOOLS MONEY FUND

<u>Loss</u>			
Reduced appropriations from General Revenue***	(Unknown)	(Unknown)	(Unknown)
<u>Savings</u>			
Reduced appropriations to local school districts***	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>
NET ESTIMATED EFFECT ON STATE SCHOOLS MONEY FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

***Unknown based on Foundation Formula calculation

<u>FISCAL IMPACT - Local Government</u>	FY 2004 (10 Mo.)	FY 2005	FY 2006
COUNTY STOCK FUND			
<u>Savings-Local Districts</u>			
Agriculture Utilization Credits	\$303,633	\$303,633	\$303,633
<u>Cost- Local Districts</u>			
Increase funding to school districts*	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT ON COUNTY STOCK FUND	<u>Unknown less than \$303,633</u>	<u>Unknown less than \$303,633</u>	<u>Unknown less than \$303,633</u>

***Unknown based on Foundation Formula calculation

**COUNTY FOREIGN INSURANCE
FUND**

<u>Savings-Local Districts</u>			
Agriculture Utilization Credits from other MO Domiciled companies	\$6,818	\$6,818	\$6,818
New Generation Cooperative Credits	<u>\$29,774</u>	<u>\$29,774</u>	<u>\$29,774</u>
<u>Total Savings-Local Districts</u>	<u>\$36,592</u>	<u>\$36,592</u>	<u>\$36,592</u>
<u>Cost- Local Districts</u>			
Increase funding to school districts***	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
NET ESTIMATED EFFECT ON COUNTY FOREIGN INSURANCE FUND	<u>Unknown less than \$36,592</u>	<u>Unknown less than \$36,592</u>	<u>Unknown less than \$36,592</u>

***Unknown based on Foundation Formula calculation

SCHOOL DISTRICTS

Income -Local School Districts

Increase funding from County Stock Fund***	Unknown	Unknown	Unknown
Increase funding from County Foreign Insurance Fund***	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>
<u>Total Income</u> -Local School Districts	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>

Loss-Local School Districts

Decrease appropriation from State Schools Money Fund***	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
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ESTIMATED NET EFFECT ON SCHOOL DISTRICTS \$0 \$0 \$0

***Unknown based on Foundation Formula calculation

FISCAL IMPACT - Small Business

This proposal could have a positive fiscal impact on those business's responsible for franchise tax and those cooperatives that are eligible for the tax credit.

DESCRIPTION

This proposal permits a carry forward of certain net operating losses

This proposal allows contributors to take the tax credits for new generation cooperatives and new generation processing entities on a quarterly basis. Also, the credits can be carried back to the contributor's five prior tax years.

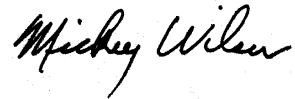
This proposal clarifies that the premium tax credits permitted in Sections 348.430 and 348.432, RSMo, shall only be subtracted against the General Revenue Fund and not against the County Foreign Insurance Tax Fund.

This proposal changes the time period for a claim for credit or refund of an overpayment of franchise tax from 2 years to 3 years.

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 Revenue
Office of Administration
 Budget and Planning
Department of Economic Development
Department of Agriculture
State Treasurer's Office
Department of Insurance
Department of Elementary and Secondary Education



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