COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1437-04
Bill No.: SB 406
Subject: Economic Development; Department of Revenue; Taxation and Revenue.
Type: Original
Date: March 16, 2005

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
General Revenue	$0 to Unknown	$0 to Unknown	$0 to Unknown
Total Estimated Net Effect on General Revenue Fund*	**$0 to UNKNOWN**	**$0 TO UNKNOWN**	**$0 TO UNKNOWN**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
Total Estimated Net Effect on Other State Funds*	**$0**	**$0**	**$0**

*** Savings from reduced tax credits could be realized by various state funds, including the county foreign insurance fund, which is distributed to local school districts.**

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

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
Local Government*	**$0**	**$0**	**$0**

*** Savings from reduced tax credits could be realized by various state funds, including the county foreign insurance fund, which is distributed to local school districts.**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Natural Resources** and the **Department of Agriculture** each assume the proposal would not fiscally impact their respective agencies.

Officials from the **Department of Economic Development (DED)** state the legislation will have an unknown impact on General Revenue (GR). An estimated $190.4 million (3% of net state GR) in tax credits could be claimed in a FY 2006. This is less than the outstanding credits that would/could be claimed. DED is involved with 6 of the programs impacted (Low Income Housing, Busness Facility (sunset 1-1-06), Enterprise Zone (sunset 1-1-06), Wine & Grape, SBA Loan Guarantee, and Historic. GR would be increased by reducing the number of credits claimed but could be reduced by any positive economic benefit the state realizes from use of these credits.

DED states the claiming of credits would be limited starting in FY 2006 and no new credits could be issued for an uncertain period of time. Numerous questions exist regarding the practical application of the bill text: How to limit the credits claimed, what happens when the 3% is reached and others ask to claim one of the credits on a tax return, who tracks when credits can be issued again and which program gets how much to issue, does the income modification portion of the Enterprise Zone law count as a "credit" and in what amount since it is based on income

ASSUMPTION (continued)

and not a credit, how will taxpayers be notified of the changes, etc... These and other issues may need to be addressed before a true economic impact could be projected. At this point, DED assumes an unknown impact.

Officials from the **Department of Revenue (DOR)** state the administrative impact the proposal has on their agency is unknown until various questions regarding in the intent of this legislation are clarified . DOR believes they would be able to control the approval and issuance of tax credits and limit them to 3% of net general revenues. However, limiting the redemption of tax credits would be difficult for various reasons.

Officials from the **Department of Insurance (INS)** assume that the 3% general revenue cap in the bill reflects the current amount of tax credits taken from the previous fiscal year. INS assumes that the Office of Administration will determine the tax credit cap each year and inform the departments of any limitations or reductions necessary for each of the individual tax credits.

The tax credits administered by INS are the Missouri examination fee tax credit, the health insurance high risk pool tax credit, the life and health insurance guaranty tax credit and the property and casualty guaranty tax credit. These four tax credits are considered entitlements -- meaning the department does not approve or control the amount of tax credits taken each year. The Guaranty Associations and board of the Health Insurance Pool determine assessments and therefore credits. INS serves only as a redeeming entity.

INS may need a mechanism to allow for carry forward of INS administered tax credits. Since the tax credits administered by INS are entitlements, the cap would ONLY delay redemption, not reduce the credit. For example, the guaranty tax credits are currently allowed to be taken over a specific time frame with no carry forward. Should a limitation be placed on the amount taken in a given tax year, INS assumes that the remaining amount entitled would be allowed to be taken in future tax years. INS anticipates the costs to make these changes to the INS tax system could be absorbed under current appropriations.

INS states they are a redeeming agency for many tax credits administered by DED. It is assumed DED would have the responsibility of informing INS and insurance companies of any reduced amounts because of the cap. Depending upon the process established by DED regarding the tax credits redeemed by INS, programming costs to the INS tax system could become necessary and additional contract computer programming would be requested at that time.

Officials from the **Office of Administration** did not respond to our request for fiscal impact.

ASSUMPTION (continued)

Oversight was able to compile the following information regarding the economic development tax credit programs specified in the bill;

	2003 Issued	2003 Redeemed	2004 Issued	2004 Redeemed
(1) Examination Fee	$ 8,291,909	$ 3,137,686	$ 8,325,569	$ 2,831,736
(2) Health Ins. High Risk Pool	$15,325,064	$ 2,453,969	$18,966,095	$ 1,581,522
(3) Life and Health Ins. Guar.	$ 4,537,636	$ 4,147,990	$ 2,419,769	$ 2,419,769
(4) Property and Casualty	$22,472,186	$19,900,840	$19,361,915	$19,355,100
(5) Charcoal Producers	$ 420,354	$ 120,837	$ 193,568	$ 0
(6) Wood Energy	$ 2,543,998	$ 3,642,570	$ 2,728,651	$ 1,205,443
(7) Bank tax credit	$ 0	$ 869,617	$ 0	$ 1,596,458
(8) Long term care	$ 0	$ 2,734,331	$ 0	$ 3,232,242
(9) Recycling cellulose	$ 0	$ 225,319	$ 0	$ 429,480
(10) New/Expanded Bus. Fac.	$ 9,348,221	$ 7,244,747	$ 8,702,349	$ 7,826,417
(11) Enterprise Zones	$43,987,082	$13,767,273	$41,546,050	$19,766,366
(12) Historic Preservation	$89,214,177	$43,153,986	$75,692,322	$66,089,980
(13) Wine & Grape	$ 943,618	$ 275,366	$ 876,349	$ 260,397
(14) Loan Guarantee	$ 0	$ 0	$ 0	$ 0
(15) Low Income Housing	$56,054,266	$29,978,473	$72,407,466	$36,916,831
TOTAL	$253,138,511	$131,653,004	$251,220,103	$163,511,741

According to the State Treasurer's report for FY 2004, there were $7.515 billion of receipts into the General Revenue Fund. The Department of Revenue's budget for FY 2004 allowed for $1.2 billion in refunds for overpayments. Oversight assumes the "net general revenue" as specified in the proposal would be the combination of these two amounts, or $6.3 billion for FY 2004. Oversight will utilize the Net General Revenue amount ($6.588 billion) as provided by Senate Research for purposes of this fiscal note. With this estimate, three percent of Net GR would be roughly $197.6 (03% x $6,588,100,000) million.

Oversight assumes that since the total tax credits redeemed for FY 2003 and FY 2004 ($131.7 million and $163.5 million respectively) for the fifteen tax credit programs specified are lower than the three percent of Net General Revenue threshold, there would not be an immediate savings to the General Revenue Fund as a result of this proposal. However, Oversight assumes that at some point in the future, tax credit redemptions could exceed the three percent of net GR threshold, and then this proposal would result in a savings to the state's General Revenue Fund.

ASSUMPTION (continued)

Therefore, Oversight will assume a $0 to Unknown savings from the limitation on tax credit redemptions.

Oversight will also assume a potential unknown cost to the General Revenue fund for the coordination of various state agencies in limiting their tax credit authorizations, issuances and redemptions of tax credits to the three percent of net GR threshold. Oversight assumes that potential savings from the 3 percent threshold will be greater than the agency costs to limit the amount of redemptions, therefore, Oversight assumes a net positive fiscal impact from the proposal.

This proposal could result in an increase to Total State Revenues.

FISCAL IMPACT - State Government	FY 2006 (10 Mo.)	FY 2007	FY 2008
GENERAL REVENUE			
Savings - potential future savings from limiting tax credit redemptions to 3% of net general revenue*	$0 to Unknown	$0 to Unknown	$0 to Unknown
Costs - various state agencies Limiting specified tax credit programs' authorizations, issuances and redemptions to three percent of net general revenue	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND*	**$0 TO UNKNOWN**	**$0 TO UNKNOWN**	**$0 TO UNKNOWN**

*** Savings from reduced tax credits could be realized by various state funds, including the county foreign insurance fund, which is distributed to local school districts.**

FISCAL IMPACT - Local Government	FY 2006 (10 Mo.)	FY 2007	FY 2008
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

Small businesses that possess or are applying for tax credits may have to wait a number of years to utilize or receive their credit. Also, the value of tax credit certificates on the open market may decrease with the uncertainty of the ability to timely redeem them.

DESCRIPTION

This proposal limits the issuance and redemption of certain economic development tax credits in any fiscal year, beginning in fiscal year 2006, to three percent of the net general revenue of the state for the prior fiscal year. The act also provides that in any fiscal year, no tax credits shall be approved or issued or redeemed for a specific tax credit program until the tax credits for that specific program that were denied in the preceding year, due to the limitation imposed by this section, are issued.

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 Agriculture
Department of Revenue
Department of Economic Development
Department of Natural Resources
Department of Insurance

NOT RESPONDING: Office of Administration

Mickey Wilson

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Director
March 16, 2005