COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0214-06
Bill No.: HCS for SS for SB 40
Subject: Motor Fuel; Motor Vehicles; Taxation and Revenue- General; Taxation and Revenue - Income; Taxation and Revenue - Sales and Use
Type: Corrected
Date: May 9, 2007

Bill Summary: This proposal creates various tax incentives for certain alternative fuel energy.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
General Revenue	$0	(Could Exceed $2,993,748)	(Could Exceed $1,997,608)
Total Estimated Net Effect on General Revenue Fund	**$0**	**(Could Exceed $2,993,748)**	**(Could Exceed $1,997,608)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Total Estimated Net Effect on Other State Funds			

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 8 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
General Revenue	0 FTE	3 FTE	3 FTE
Total Estimated Net Effect on FTE	**0 FTE**	**3 FTE**	**3 FTE**

☒ Estimated Total Net Effect on All funds expected to exceed $100,000 savings or (cost).

☐ Estimated Net Effect on General Revenue Fund expected to exceed $100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Section 135.710: Alternative Refueling Property
Officials at the **Department of Revenue** (**DOR**) assume Section 135.710 establishes a tax credit for all tax years beginning on or after January 1, 2008, but before January 1, 2011. The credit is for any eligible applicant who installs and operates a qualified alternative fuel vehicle refueling property. The credit is to be applied against the tax otherwise due under chapter 143, except withholding taxes, chapter 147, and/or chapter 148, in the tax year which the applicant is constructing the refueling property.

The credit shall not exceed the lesser of $20,000 or 20% of the total costs directly associated with the purchase and installation of any alternative fuel storage and dispensing equipment. The credits allowed by this section shall be applied against the income tax liability imposed by chapter 143, 147, and 148; after all other credits have been applied. The cumulative amount of credits claimed shall not exceed $2 million in 2008, $1 million in 2009, and $1 million in 2010. This credit is not refundable but may be carried forward for 2 subsequent years.

DOR is to establish a procedures by which the credits may be claimed and apportioned equally among all eligible applicants. Department of Natural Resources is to certify a taxpayer's eligibility to DOR.

DOR's Personal Tax would require 1 Tax Processing Technician I for every 6,000 credits claimed. Personal Tax would also require 1 Tax Processing Technician I for every 2,000 credits claimed due to the apportionment among all applicants. However, since there are approximately only 800 taxpayers impacted by this bill, Taxation does not anticipate an impact. DOR's Customer Assistance anticipates an increased number of contacts, but should be able to handle the increase with existing staff.

Officials at the **Department of Insurance, Financial Institutions and Professional Registrations** (**DIFP**) assume it is unknown how many insurance companies will choose to participate in this program and take advantage of the tax credits. DIFP can not estimate how much would be lost in premium tax revenue as a result of tax credits. Premium tax revenue is split 50/50 between General Revenue and 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 through out 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 this tax credit.

ASSUMPTION (continued)

DIFP will require minimal contract computer programming to add this new tax credit to the premium tax database and can do so under existing appropriation.

In response to a previous version of this proposal officials at the **Office of Administration's Budget and Planning** assume this proposal will reduce general and total state revenues.

Officials at the **Department of Natural Resources** assume that there is not a significant direct fiscal impact from this proposal.

DOR and DNR are unable to determine the number of taxpayers who would apply for this credit. **Oversight** has ranged the fiscal impact from $0 (no taxpayer taking the credit) to the annual limits of the tax credit in each fiscal year. This tax credit can be utilized against tax otherwise due so funds other than General Revenue (i.e. County Foreign Insurance) may be effected which are not listed in the fiscal note.

Section 143.114: Purchase of hybrid vehicle

Officials at the **Department of Revenue** (**DOR**) assume this legislation allows any taxpayer who purchases a qualified hybrid vehicle, a subtraction from the Missouri Adjusted Gross Income of up to $1,500 or 10% of the purchase price (whichever is less) of the qualified vehicle, for the tax year in which the purchase was made. This deduction will begin on or after January 1, 2008. DOR is to establish procedures by which the deduction may be claimed.

DOR's Personal Tax - would require 2 Temporary Tax Employees to key the additional data and verify the documentation. They believe there will be a number of taxpayers who will take advantage of the new deduction, therefore, will also require 1 Tax Processing Technician I for every 19,000 errors and 1 Tax Processing Technician I for every 2,400 pieces of correspondence processed. DOR's Customer Assistance anticipates an increased number of contacts, but should be able to handle the increase with existing staff.

In response to a previous version of this proposal officials at the **Budget and Planning** assume this legislation provides a deduction from Missouri adjusted gross income, up to $1,500, for the purchase of a qualifying hybrid vehicle. According to a 5/4/2006 article published on the Auto Channel website, 199,148 new hybrids were registered in 2005, more than double the amount in 2004. However, Missouri was not among the Top Ten states for registration, which accounted for 62% of total registrations. BAP estimates Missouri had 0.9% of the registrations, or roughly 1,800 registrations. At $1,500 dollars for each, this would reduce Missouri AGI by $2,700,00, and reduce general and total state revenues by $162,000 (at the 6% tax rate). It is likely sales of

ASSUMPTION (continued)

these cars will climb as their popularity increases.

Officials at the **Department of Natural Resources** assume that there is not a significant direct fiscal impact from this proposal.

Oversight researched the number of hybrids sold in the United States in 2006 and found it was 252,636. Oversight recognizes that it is difficult to determine the number of those hybrids that are sold in Missouri since the figures are not tracked. Oversight used 2% of all hybrids sold as the number sold in Missouri. For the purpose of this note it was determined 5053 hybrids were sold in Missouri and assumed each taxpayer would take the maximum reduction of $1,500 for a total reduction to taxpayers AGR of $7,579,500. Oversight recognizes that since the number of hybrids being sold is increasing, the loss to state revenue "could exceed" $341,078 assuming a 4.5% marginal tax rate starting in Fiscal Year 2009.

Section 143.128: E-85 gasoline

Officials at the **Department of Revenue** (**DOR**) assume this proposal establishes a tax credit for taxpayers who purchase E-85 gasoline in a tax year beginning on or after January 1, 2008. The credit may be applied against the tax otherwise due under this chapter, excluding withholding taxes in the following amounts: 25 cents per gallon purchases in 2008, 20 cents per gallon purchased in 2009 and 2010, 15 cents per gallon purchased in 2011 and each subsequent year thereafter.

The amount of credits claimed shall not exceed $500 annually. The credit must be claimed when the taxpayer files their return. The credit is refundable. The aggregate amount of credits, which may be redeemed in any fiscal year, shall not exceed $500,000. The credit is available whether the taxpayer opts to take a standard deduction or itemize. DOR is to administer this credit.

DOR's Personal Tax - The only way Personal Tax can effectively administer this credit is if the receipts for the E-85 gas specifically say they are for this type of purchase. Otherwise, the entire purchase would be disallowed. This credit would require apportioning with limits. These taxpayers will not be allowed to file electronically, therefore, Personal Tax would require 1 Tax Processing Technician I for every 4,000 credits claimed and 1 Temporary Tax Employee for every additional 32,000 paper returns filed.

DOR's Customer Assistance anticipates an increased number of contacts, but should be able to handle the increase with existing staff.

In response to a previous version of this proposal officials at the **Officials at the Office of**

ASSUMPTION (continued)

Administration's Budget and Planning assume this legislation would reduce general and total state revenues. The program begins for calendar year 2008, therefore, this will reduce revenues in FY09.

Oversight assumes it is difficult to determine the number of taxpayers that will claim the tax credit. Oversight has ranged the fiscal impact from $0 (no taxpayer taking the credit) to the annual limit of $500,000 for Fiscal Year 2009 and 2010.

FISCAL IMPACT - State Government	FY 2008 (10 Mo.)	FY 2009	FY 2010
GENERAL REVENUE			
Loss - Tax credit for alternative fuel facilities (Section 130.710)	$0	($0 to $2,000,000)	($0 to $1,000,000)
Loss - Income tax reduction from new deduction for purchase of a hybrid vehicle (Section 143.114)	$0	(Could Exceed $341,077)	(Could Exceed $341,077)
Loss - Tax credit for E-85 (Section 143.128)	$0	($0 to $500,000)	($0 to $500,000)
Costs - DOR (full time employees)			
Personal Service (3 full-time)	$0	($75,380)	($77,265)
Personal Service (3 temporary)	$0	($24,585)	($25,199)
Fringe Benefits	$0	($44,045)	($45,146)
Equipment and Expense	$0	($8,661)	($8,921)
Total Costs - DOR (full time employees)	$0	($152,671)	($156,531)
FTE Change - DOR	0 FTE	3 FTE	3 FTE
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**$0**	**(Could Exceed $2,993,748)**	**(Could Exceed $1,997,608)**
Estimated Net FTE Change for General Revenue Fund	0 FTE	3 FTE	3 FTE

FISCAL IMPACT - Local Government	FY 2008 (10 Mo.)	FY 2009	FY 2010
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

There could be an impact to small businesses who qualify for the tax credits, subtraction, or exemption established by this legislation.

FISCAL DESCRIPTION

This act creates an income tax credit for the costs of constructing a qualified alternative fuel vehicle refueling property. The tax credit shall not exceed the lesser of twenty thousand dollars or twenty percent of the costs directly associated with the purchase and installation of any alternative fuel storage and dispensing equipment. The cumulative amount of credits which may be claimed shall not exceed three million dollars for taxable year 2008. For taxable year 2009, the cumulative amount of tax credits which may be claimed is reduced to two million dollars, and for taxable year 2010, the amount is further reduced to one million dollars. The tax credit is non-refundable, but may be carried forward for two subsequent tax years. The tax credit is fully transferable. The act contains a recapture provision for refueling properties which cease sales of alternative fuel. The provisions of the act creating the tax credit program will automatically expire six years from the effective date of the act if not re-authorized.

The act creates an income tax deduction for tax year 2008, for a taxpayer's purchase of qualified hybrid vehicles. The deduction will equal the lesser of one thousand five hundred dollars or ten percent of the purchase price of the vehicle. The tax deduction must be taken in the year in which the purchase is made.

The act creates a tax credit for the purchase of E-85 gasoline. The tax credit will be equal to: twenty five cents per gallon for 2008; twenty cents per gallon for 2009 and 2010; and fifteen cents per gallon for 2011 and each subsequent year. The tax credit must be for at least fifty dollars, but may not exceed five hundred dollars per taxpayer per year. The aggregate amount of tax credits which may be redeemed by all taxpayers in any given year shall not exceed five hundred thousand dollars. The tax credit is non-refundable, but may be carried forward three years. The provisions allowing for the tax credit for purchases E-85 gasoline will sunset six years from the effective date of the act unless re-authorized.

FISCAL DESCRIPTION (continued)

The act creates a new income tax credit equal to 25% of the cost to purchase and install E-85 conversion kits on motor vehicles. The credit is non-refundable and fully transferable. The program for the tax credit is capped at $500,000 and expires in five years.

The act also creates a sales tax exemption for fiscal year 2008, for purchases of automobiles designed to operate on eighty-five percent ethanol fuel.

Under current law, in order for a manufacturer to receive an exemption from sales tax for electrical energy used in the primary manufacture of a product, the manufacturer must prove that the total cost of electricity used exceeds ten percent of the total cost of production or that the raw materials used in the primary manufacture of a product contain at least twenty-five percent recovered materials. This act creates a rebuttable presumption that the raw materials used in the primary manufacture of automobiles contain at least twenty-five percent recovered materials.

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
Department of Natural Resources
Missouri Department of Transportation
Office of Administration
Budget and Planning
Department of Insurance, Financial Institutions and Professional Registrations

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