

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1360-01
Bill No.: SB 283
Subject: Business and Commerce; Economic Development; Taxation and Revenue
Type: Original
Date: February 5, 2007

Bill Summary: This proposal changes provisions relating to enhanced enterprise zones.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
General Revenue	\$0 to (\$18,000,000)	\$0 to (\$18,000,000)	\$0 to (\$18,000,000)
Total Estimated Net Effect on General Revenue Fund	\$0 to (\$18,000,000)	\$0 to (\$18,000,000)	\$0 to (\$18,000,000)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

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

- 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

Officials from the **Department of Economic Development (DED)** state each year an additional \$18 million in Enhanced Enterprise Zone credits would be issued but these credits will not be earned or claimed until the start of the third year fiscal year.

DED assumes the change to the Enhanced Enterprise Zone program credit cap increase will create positive direct net economic benefit to Missouri of \$15 million in the first 3 fiscal years. At the end of 10 fiscal years, cumulative net general revenue will increase by \$56 million and 3,800 new jobs will be created.

DED assumes the bill would have no fiscal or administrative impact on their agency.

Officials from the **Office of Administration - Budget and Planning** state this proposal expands the tax credits available to new business facilities in an enhanced enterprise zone. The amount of tax credits currently available for this program is seven million dollars annually, the legislation increases that amount to twenty-five million dollars annually. This proposal could therefore lower general and total state revenues by that amount. This program may stimulate other economic activity, but Budget and Planning does not have data to estimate the induced revenues, and defers to the Department of Economic Development for such an estimate.

Officials from the **Department of Revenue (DOR)** state their Customer Assistance Section anticipates an increase in contacts on the delinquency phone lines. Therefore, Customer Assistance would require 1 Tax Collection Technician I for every additional 15,000 contacts. Customer Assistance also anticipates additional contacts in the field offices and would require 1 Tax Processing Technician I for every additional 4,800 contacts in the field. Customer Assistance expects most customers to contact our offices by phone, therefore, believe the field contacts could be handled with existing staff.

DOR assumes no additional FTE would be needed for the Personal Tax Section, Withholding Tax Section, or Corporate/Franchise Tax Section.

Oversight assumes DOR will not require an additional FTE as a result of this proposal.

Officials from the **Department of Insurance, Financial Institutions and Professional Registration** assume the proposal will not fiscally impact their agency.

ASSUMPTION (continued)

Oversight has ranged the fiscal impact of raising the annual cap of the Enhanced Enterprise Zone program from \$0 (no additional tax credits will be redeemed above the current \$7 million cap) to an additional \$18 million loss (\$25 million - \$7 million) to the general revenue fund. The program was created with SB 1155 in the 2004 legislative session and according to the DED, no tax credits have been issued for fiscal years 2005 or 2006. DED's projection for fiscal years 2007 and 2008 are for the issuance of \$7 million in each year.

Oversight compared the total tax credit issuances for all programs relative to the total tax credit redemptions for the previous three years in order to determine a relationship between the two. Oversight discovered that the annual redemptions ranged from 79 percent to 86 percent of the annual issuances. Depending on the program, the redeemed credits may have been issued several years prior and carried forward to the years studied; however, Oversight will utilize an estimated redemption total of 83 percent of tax credits issued. Therefore, under this proposal, if \$18,000,000 of additional credits are issued, Oversight would assume \$14,940,000 (83%) of credits to be redeemed, reducing Total State Revenues.

Oversight assumes there would be some positive economic benefit to the state as a result of the changes in this proposal, however, Oversight considers these benefits to be indirect and therefore, have not reflected them in the fiscal note.

This proposal could reduce Total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2008 (10 Mo.)	FY 2009	FY 2010
GENERAL REVENUE			
<u>Loss - DED</u>			
Enhanced Enterprise Zone Tax Credits cap increased from \$7 million to \$25 million	\$0 to <u>(\$18,000,000)</u>	\$0 to <u>(\$18,000,000)</u>	\$0 to <u>(\$18,000,000)</u>
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	\$0 to <u>(\$18,000,000)</u>	\$0 to <u>(\$18,000,000)</u>	\$0 to <u>(\$18,000,000)</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2008 (10 Mo.)	FY 2009	FY 2010
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

Small businesses that qualify under the enhanced enterprise program could be fiscally impacted as a result of this proposal.

FISCAL DESCRIPTION

This proposal modifies the definition of the term "employee". The act places new requirements on eligibility regarding the number of new employees and average employee wage. The amount of money which may be issued for enhanced business enterprises by the department of economic development after December 31, 2006, is increased from seven million to twenty-five million dollars.

Prior to the issuance of tax credits for enhanced business enterprises, the Department of Economic Development must verify through the Department of Revenue that the enhanced business enterprise does not owe any delinquent income, sales, or use taxes, or interest or penalties on such taxes and through the Department of Insurance that the applicant does not owe any delinquent insurance taxes. If the enhanced business enterprise has a tax delinquency, the tax credits issued for enhanced business enterprises shall first be applied to such delinquency with the remainder, if any, to then be issued to the enhanced business enterprise.

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

L.R. No. 1360-01
Bill No. SB 283
Page 6 of 6
February 5, 2007

SOURCES OF INFORMATION

Department of Economic Development
Department of Revenue
Office of Administration
Department of Insurance, Financial Institutions, Professional Registration

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, slightly slanted style.

Mickey Wilson, CPA
Director
February 5, 2007