COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2530-01
Bill No.: SB 661
Subject: Economic Development; Mining and Oil and Gas Production; Taxation and Revenue
Type: Original
Date: April 16, 2007

Bill Summary: This proposal creates tax incentives for secondary mining uses.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
General Revenue	$0 to (Unknown)	$0 to (Unknown) - could exceed ($1,600,000)	$0 to (Unknown) - could exceed ($1,600,000)
Total Estimated Net Effect on General Revenue Fund*	**$0 to (Unknown)**	**$0 to (Unknown) - could exceed ($1,600,000)**	**$0 to (Unknown) - could exceed ($1,600,000)**

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

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
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**

*** 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 Administration - Budget and Planning (BAP)** state the proposal creates three new tax credit programs. The total aggregate amount available for all of the proposed programs is one million six hundred thousand dollars per fiscal year. The proposal could therefore lower general and total state revenue by that amount. This program may stimulate other economic activity, but BAP does not have data to estimate induced revenues. The Department of Economic Development may have such an estimate.

The proposal creates the Secondary Mining Use Tax Credit Program; a program that allows a credit against a taxpayer's income tax liability in an amount equal to the lesser of one hundred thousand dollars or one hundred percent of costs incurred for the utilization of an existing mine for secondary use. The maximum amount of credits available under the program is one million dollars per fiscal year. The credits are transferable and sellable and they may be carried forward five years until the credit is fully used.

The proposal also creates the Business Relocation for Secondary Mine Use Tax Credit Program; a program that allows a credit against a taxpayer's income tax liability in an amount equal to the lesser of ten thousand dollars or fifty percent of costs incurred for relocating a business into an existing mine for purposes other than mining. The maximum amount of credits available under the program is one hundred thousand dollars per fiscal year. The credits are transferable and sellable and they may be carried forward five years until the credit is fully used.

The proposal also creates the Abandoned Mine Safety Tax Credit Program; a program that allows a credit against a taxpayer's income tax liability in an amount equal to the lesser of fifty thousand dollars or fifty percent of costs incurred for the implementation of safety measures in an abandoned mine. The maximum amount of credits available under the program is five hundred thousand dollars per fiscal year. The credits are transferable and sellable and they may be carried forward five years until the credit is fully used.

The proposal also exempts the sale of equipment to businesses relocating to an existing mine for purposes other than mining and utility services consumed in connection with a business relocating to an existing mine for purposes other than mining from state sales tax. The proposal could therefore lower general and total state revenue by an unknown amount. Budget and Planning defers to the Department of Economic Development for an estimate of reduced revenues.

ASSUMPTION (continued)

Officials from the **Department of Revenue (DOR)** state this legislation establishes 3 new tax credits with carry forward provisions. Personal Tax would require 1 Tax Processing Technician I for every 4,000 credits claimed for each tax credit established. Therefore, DOR believes we would require a total of 3 FTE to implement this legislation.

Due to the Statewide Information Technology Consolidation, the department's response to a proposal will now also reflect the cost estimates prepared by OA-IT for impact to the various systems. As a result, the impact shown may not be the same as previous fiscal notes submitted. In addition, if the legislation is Truly Agreed to and Finally Passed the OA-IT costs shown will be requested through appropriations by OA-IT.

Office of Administration Information Technology (ITSD DOR) estimates the IT portion of this request can be accomplished within existing resources, however; if priorities shift, additional FTE/overtime would be needed to implement. Office of Administration Information Technology (ITSD DOR) estimates that this legislation could be implemented utilizing 4 existing CIT III for 2 months and an additional 2 CIT III for 1 month at a rate of $41,860.

DOR assumes a cost of the three additional FTE's to total roughly $120,000 annually from the General Revenue Fund.

Oversight assumes there would not be a large number of companies to qualify for the new tax credit programs. Therefore, Oversight assumes DOR would not require additional FTE to administer these tax credits.

Officials from the **Department of Insurance, Financial Institutions and Professional Registration (DIFP)** state it is unknown how many insurance companies will choose to participate in this program and take advantage of the 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 tax credits each year.

The department will require minimal contract computer programming to add this new tax credit to the premium tax database and can do so under existing appropriation. However, should multiple bills pass that would require additional updates to the premium tax database, the department may need to request more expense and equipment appropriation through the budget

ASSUMPTION (continued)

process

Officials from the **Office of the Secretary of State (SOS)** note that many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The Secretary of State's office is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to Secretary of State's office for Administrative Rules is less than $2,500. The Secretary of State's office recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Oversight compared the total tax credit issuances 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.

Oversight will range the fiscal impact of the new programs from $0 (no additional tax credits will be issued) to the annual limits. The three tax credit programs are for tax years starting on or after January 1, 2008, therefore, Oversight assumes the first credits that could be redeemed would be in January 2009, or FY 2009.

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.

FISCAL IMPACT - State Government	FY 2008 (10 Mo.)	FY 2009	FY 2010
GENERAL REVENUE			
Loss - Department of Revenue Secondary Mining Use Tax Credit (Section 135.567)	$0	$0 to ($1,000,000)	$0 to ($1,000,000)
Loss - Department of Revenue Business Relocation for Secondary Mine Use Tax Credit (Section 135.568)	$0	$0 to ($100,000)	$0 to ($100,000)
Loss - Department of Revenue Abandoned Mine Safety Tax Credit (Section 135.569)	$0	$0 to ($500,000)	$0 to ($500,000)
Loss - Department of Revenue Sales tax exemption for equipment sold to businesses relocating to an existing mine for purposes other than mining (Section 144.030.2 (40))	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
Loss - Department of Revenue Sales tax exemption for electrical energy or gas, water or other utilities which are ultimately consumed in connection with a business relocating to an existing mine for purposes other than mining. (Section 144.030.2 (41))	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
ESTIMATED NET EFFECT TO GENERAL REVENUE	**$0 to (Unknown)**	**$0 to (Unknown) - could exceed ($1,600,000)**	**$0 to (Unknown) - could exceed ($1,600,000)**

Note: The fiscal note does not reflect the possibility that some of the tax credits could be utilized by insurance companies against insurance premium taxes. If this occurs, the loss in tax revenue would be split between the General Revenue Fund and the County Foreign Insurance Fund, which ultimately goes to local school districts.

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

FISCAL IMPACT - Small Business

Small businesses that intend to relocate into an abandoned mine could be positively impacted as a result of this proposal.

FISCAL DESCRIPTION

This proposal creates three tax credit programs and two sales tax exemptions. The secondary mining use tax credit program provides a tax credit for taxpayers, including not-for-profit insurance companies, that incur expenses for the utilization of an existing mine for secondary uses equal to the lesser of hundred percent of such costs or one hundred thousand dollars. The tax credit is fully transferrable, and non-refundable, but may be carried forward five years. The tax credit has an annual aggregate state-wide cap of one million dollars. The provisions of this act will sunset six years from the effective date if not reauthorized.

The Business Relocation for Secondary Mining Use Tax Credit program provides a tax credit to taxpayers, including not-for-profit insurance companies, that incur expenses in relocating to an existing mine for use of the mine other than mining equal to the lesser of fifty percent of such costs or ten thousand dollars. The tax credit is fully transferrable, and non-refundable, but may be carried forward five years. The tax credit has an annual aggregate state-wide cap of one hundred thousand dollars. The provisions of this act will sunset six years from the effective date if not reauthorized.

The abandoned Mine Safety Tax Credit Program provides a tax credit, to taxpayers, including not-for-profit insurance companies, that incur expenses in implementing safety measures or devices in abandoned mines, equal to the lesser of fifty percent of such expenses or fifty thousand dollars. The tax credit is fully transferrable, and non-refundable, but may be carried forward five years. The tax credit has an annual aggregate state-wide cap of five hundred thousand dollars. The provisions of this act will sunset six years from the effective date if not reauthorized.

FISCAL DESCRIPTION (continued)

This act grants a sales tax exemption for sales of equipment to businesses relocating to an existing mine for purposes other than mining, if such equipment will actually be permanently placed in the mine. A sales tax exemption is created for certain utilities, including telecommunications services, consumed in connection with a business relocating to an existing mine for purposes other than mining.

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 Insurance, Financial Institutions and Professional Registration
Office of Administration - Budget and Planning
Office of the Secretary of State

Mickey Wilson, CPA
Director
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