COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3365-04
Bill No.: SCS for SB 749
Subject: Motor Fuel; Motor Vehicles; Taxation and Revenue - General; Taxation and Revenue - Income; Taxation and Revenue - Sales and Use
Type: Original
Date: February 25, 2008

Bill Summary: Would create various tax incentives for certain energy uses.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
General Revenue	$0 to ($3,000,000)	($590,933 to $3,090,933)	($559,260 to $2,059,260)
Total Estimated Net Effect on General Revenue Fund	**$0 to ($3,000,000)**	**($590,933 to $3,090,933)**	**($559,260 to $2,059,260)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 9 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
General Revenue	0	8	8
Total Estimated Net Effect on FTE	**0**	**8**	**8**

☒ 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 2009	FY 2010	FY 2011
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of the Secretary of State** (SOS) provided this response.

Many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS 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 the SOS for Administrative Rules is less than $2,500. The SOS 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.

Officials from the Office of **Administration, Division of Budget and Planning** (BAP), assume there would be no added cost to their organization as a result of this bill. BAP officials assume the proposal would have the following fiscal impact to the state:

This proposal would create an income tax credit for the construction of an AFV refueling property, equal to the lesser of 20% of construction costs or $20,000. Tax credit claims would be capped at $3 million in FY09, $2 million in FY10, and $1 million in FY11. Therefore, this proposal would reduce general and total state revenues by those amounts.

Oversight will indicate a fiscal impact for this provision from $0 to the maximum amount of credits for each year.

This proposal would also provide a deduction from Missouri adjusted gross income, up to $1,500, for the purchase of a qualifying hybrid vehicle. According to a 2/26/07 news release published by R.L. Polk , there were 254,545 hybrid vehicle registrations in 2006. Missouri was not among the top ten states cited in the article, which accounted for 155,979 of these registrations. BAP assumes Missouri accounted for 1/40 of the remaining registrations, or a total of 2,464. A separate article 9/17/07 from R.L. Polk projects an increase of 56.9 percent in 2007 for Midwestern states. Using this rate, BAP estimates 3,866 hybrid registrations in Missouri in 2007.

ASSUMPTION (continued)

This proposal could reduce Missouri Taxable Income by (3,866 vehicles x $1,500 tax deduction per vehicle) = $5.8 million. Assuming a 4.5% effective tax rate, this provision could reduce general and total state revenues by ($5,800,000 x 4.5%) = $261,000 annually beginning in FY09.

Oversight notes that the proposal allows the deduction for vehicles purchased in tax years beginning January 1, 2009, and assumes that the fiscal impact of the proposal would begin in FY 2010.

This proposal would provide an income tax credit of up to $500 per taxpayer, but no less than $50, for the purchase of E-85, biodiesel, or bio-diesel blended gasoline. The aggregate amount of tax credits which may be redeemed in any fiscal year could not exceed $500,000. This provision could reduce general and total state revenues. This provision would become effective for 2009, resulting in a revenue reduction FY 2010.

Oversight will indicate a fiscal impact from $0 to $500,000 for FY 2010 and FY 2011.

Officials from the **Department of Conservation** (MDC) assume this proposal would have no fiscal impact on MDC funds.

Officials from the **Department of Natural Resources** and the **Department of Transportation** assume this proposal would have no significant impact on their organizations.

Officials from the **Department of Revenue** (DOR) assume this proposal would provide for additional tax deductions and credits which would reduce the amount of state tax due. Therefore, the proposal would reduce total state revenues.

Alternative Fuel Vehicle Refueling Facility Tax Credit

> From January 1, 2009, to January 1, 2012, an eligible applicant who installs and operates a qualified alternative fuel vehicle refueling property would be allowed an income tax credit for any tax year in which the applicant is constructing the refueling property. An "eligible applicant" would be business entity that is the owner of a qualified alternative fuel vehicle refueling property.

ASSUMPTION (continued)

The credit could not exceed the lesser of $22,000 or 20% of the total costs directly associated with the purchase and installation of any alternative fuel storage and dispensing equipment on any qualified alternative fuel vehicle refueling property. The credits could only be claimed when the applicant files its return in the year the storage and dispensing facility was placed into service. Tax credits which could be claimed by all eligible applicants could not exceed $3 million for 2009, $2 million for 2010, and $1 million for 2011.

The credit would not be refundable but could be carried forward 2 subsequent tax years. The credits could be assigned, transferred, or sold. If the facility that received a credit ceases business, the entity would forfeit any credits. The Department of Revenue would apportion the credit equally among all eligible applicants.

The Department of Natural Resources would certify the credit to the applicant and the Department of Revenue; and the Department of Natural Resources and the Department of Revenue are to promulgate the rules.

DOR assumes that changes to individual income tax forms and instructions would be required; changes to corporate income tax forms and instructions would be required; changes to the MINITS system would be required; changes to the COINS and CAFÉ systems would be required; and Financial Institution Tax system changes would be required.

Hybrid Vehicle Purchase Tax Deduction

Beginning on January 1, 2009, any taxpayer who purchases a qualified hybrid vehicle would be allowed to deduct from the taxpayer's Missouri adjusted gross income an amount equal to $1,500 or 10% of the purchase price of the vehicle, whichever is less.

The Department of Revenue would determine the means by which the taxpayer is to document the purchase in order to claim the deduction. The Department of Revenue would also promulgate the rules.

DOR assumes that changes to individual income tax forms and instructions would be required; changes to corporate income tax forms and instructions would be required, and changes would be required to the MINITS, Speed-up, COINS, and CAFÉ systems.

ASSUMPTION (continued)

Alternative Fuel Purchase Tax Credit

> Beginning January 1, 2009, a taxpayer who purchases E-85 gasoline would be be allowed to claim a tax credit. For 2009, the credit would be 25 cents per gallon of E-85 gasoline or 5 cents per gallon of biodiesel or biodiesel-blended fuel. For 2010 and 2011, the credit would be 20 cents per gallon of E-85 gasoline or 3 cents per gallon of biodiesel or biodiesel-blended fuel purchased by the taxpayer. For 2012 and years, the credit would be 15 cents per gallon of E-85 gasoline or 5 cents per gallon of biodiesel or biodiesel-blended fuel.

DOR provided the following estimate of administrative impact.

Alternative Fuel Vehicle Refueling Facility Tax Credit

Based on information received in the 2006 legislative session, there are only 800 taxpayer's who would qualify for this tax credit. Taxation anticipates absorbing this program with existing staff. Should the number of credits claimed exceed 4,000 the Department would have to request additional staff through the budget process.

Hybrid Vehicle Purchase Tax Deduction

Personal Tax would require two FTE Temporary Tax Employees for key-entry, one FTE Tax Processing Technician I for every additional 19,000 returns verified, and one FTE Tax Processing Technician I for every additional 2,400 pieces of correspondence.

Alternative Vehicle Fuel Purchase Tax Credit

Personal Tax would require one FTE Tax Processing Technician I for every 4,000 credits claimed, and Customer Assistance would require one FTE Tax Collections Technician I for every additional 15,000 contacts, annually, on the delinquent tax phone line, one FTE Tax Collections Technician I for every additional 24,000 contacts, annually, on the income tax line, and three FTE Tax Processing Technician I for every additional 4,800 contacts in the field offices. Customer Assistance anticipates the increase in contacts to be significant enough to request one FTE Tax Processing Technician I for each of the larger field offices, Kansas City, St. Louis, and Springfield..

ASSUMPTION (continued)

In summary, DOR provided an estimated cost to implement this proposal including eight additional FTE, with related equipment and expenditures, totaling $307,597 for FY 2009, $326,841 for FY 2010, and $336,645 for FY 2011.

Oversight has, for fiscal note purposes only, changed the starting salary for the additional positions to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees for a six month period and the policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. Oversight has also adjusted the DOR estimate of equipment and expenditures in accordance with OA budget guidelines, and Oversight assumes that a limited number of additional employees in a given location could be accommodated in existing office space. If unforeseen expenses are incurred or if multiple provision are enacted which increase the DOR workload, resources could be requested through the budget process.

Oversight notes that DOR assumed it could implement the refueling facility tax credits with existing resources; therefore additional FTE and related equipment and expenditures are indicated for FY 2010 and FY 2011.

FISCAL IMPACT - State Government	FY 2009 (10 Mo.)	FY 2010	FY 2011
GENERAL REVENUE FUND			
Revenue reductions			
AFV refueling facility tax credits	$0 to ($3,000,000)	$0 to ($2,000,000)	$0 to ($1,000,000)
Hybrid vehicle purchase tax deductions	$0	($261,000)	($261,000)
E-85 fuel tax purchase tax credits	$0	$0 to ($500,000)	$0 to ($500,000)
Totals	$0 to $3,000,000)	($261,000 to $2,761,000)	($261,000 to $1,761,000)
Cost - Department of Revenue			
Personal Service (8 FTE)	$0	($181,445)	($186,888)
Temporary employees	$0	($16,550)	($17,047)
Fringe Benefits	$0	($87,553)	($90,180)
Expense and Equipment	$0	($44,385)	($4,145)
Totals	$0	($329,933)	($298,260)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**$0 to ($3,000,000)**	**($590,933 to $3,090,933)**	**($559,260 to $2,059,260)**
Estimated Net FTE Effect on General Revenue Fund	0	8	8

FISCAL IMPACT - Local Government	FY 2009 (10 Mo.)	FY 2010	FY 2011
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

This proposal could have a direct impact on businesses which purchase or construct qualified alternative fuel vehicle refueling facilities, or purchase or sell qualified vehicles.

FISCAL DESCRIPTION

This proposal would create various tax incentives for certain energy uses.

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

Office of the Secretary of state
Office of Administration
    Division of Budget and Planning
Department of Conservation
Department of Natural Resources
Department of Revenue
Department of Transportation

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Director
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