

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 3370-02  
Bill No.: SB 879  
Subject: Agriculture Department; Revenue Department; Tax Credits  
Type: Original  
Date: January 11, 2008

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Bill Summary: This proposal modifies the maximum amount of certain agricultural tax credits that may be issued each fiscal year and extends the expiration date for the tax credits.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
General Revenue	\$0 to (\$6,000,000)	\$0 to (\$6,000,000)	\$0 to (\$6,000,000)
<b>Total Estimated Net Effect on General Revenue Fund*</b>	<b>\$0 to (\$6,000,000)</b>	<b>\$0 to (\$6,000,000)</b>	<b>\$0 to (\$6,000,000)</b>

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

\* 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 6 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2009</b>	<b>FY 2010</b>	<b>FY 2011</b>
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>			
<b>FUND AFFECTED</b>	<b>FY 2009</b>	<b>FY 2010</b>	<b>FY 2011</b>
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</b>

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).

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2009</b>	<b>FY 2010</b>	<b>FY 2011</b>
<b>Local Government*</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

**\* 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.**

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## FISCAL ANALYSIS

### ASSUMPTION

Officials from the **Department of Revenue** assume this proposal will not fiscally impact their agency.

Officials from the **Office of Administration - Budget and Planning** state the proposal increases the cap on agricultural tax credit programs from \$6 million to \$12 million. Therefore, general and total state revenues may be reduced by \$6 million annually.

Officials from the **Department of Agriculture (AGR)** assume the proposal would result in a loss of revenue of \$6 million in Fiscal Years 2009 and 2010 and a loss of \$12 million in FY 2011 from the increase in tax credits each year as well as the sunset extension. AGR assumes they can administer the increase in tax credits with current staff.

Officials from the **Department of Insurance, Financial Institutions and Professional Registration (DIFP)** state the legislation increases the aggregate of tax credits issued from six to twelve (11 million for New Generation and 1 million for Agricultural Product Utilization) million each fiscal year, doubling the amount of tax credits issued which would result in the possible reduction of premium tax revenue. It also extends the tax credit until 2016.

DIFP states 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 tax credits each year.

**Oversight** assumes with the current expiration date of December 31, 2010, companies will be able to utilize tax credits earned in calendar year 2010, in a return filed in fiscal year 2011. Therefore, the first fiscal year in which the state would realize a savings from the expiration of the programs outlined in Sections 348.430 to 348.436, RSMo, would be fiscal year 2012. Therefore, although extending the sunset date of these programs from 2010 to 2016, would have a direct fiscal impact on the state of up to \$6 million (or \$12 million with new annual limits), Oversight assumes this would be realized outside the scope of this fiscal note.

ASSUMPTION (continued)

**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 118 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 98.5 percent of tax credits issued. Therefore, under this proposal, if \$6,000,000 of credits are issued, Oversight would assume \$0 to \$5,910,000 (98.5%) of credits to be redeemed, reducing Total State Revenues

**Oversight** will range the fiscal impact of the two programs from \$0 (no additional tax credits will be issued) to the change in annual limits. 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 2009 (10 Mo.)	FY 2010	FY 2011
<b>GENERAL REVENUE</b>			
<u>Loss - Department of Agriculture</u>			
Increase of annual cap of agricultural tax credits from \$6 million to \$12 million	\$0 to <u>(\$6,000,000)</u>	\$0 to <u>(\$6,000,000)</u>	\$0 to <u>(\$6,000,000)</u>
<b>ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND</b>	<b>\$0 to <u>(\$6,000,000)</u></b>	<b>\$0 to <u>(\$6,000,000)</u></b>	<b>\$0 to <u>(\$6,000,000)</u></b>

**Note: This 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.**

<u>FISCAL IMPACT - Local Government</u>	FY 2009 (10 Mo.)	FY 2010	FY 2011
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

This proposal will positively impact small businesses that qualify for these credits.

FISCAL DESCRIPTION

This act increases from \$6 million to \$12 million the aggregate amount of tax credits that may be issued per fiscal year for the Agricultural Product Utilization Contributor tax credit and the New Generation Cooperative Incentive tax credit.

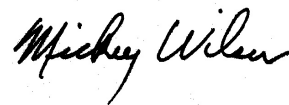
The Missouri Agricultural and Small Business Development Authority is allowed to issue up to \$1 million in Agricultural Product Utilization tax credits in any fiscal year to individuals contributing cash funds to the Authority. The Authority may issue additional Agricultural Product Utilization tax credits in circumstances as described in the act.

Currently, both tax credit programs are scheduled to expire on December 31, 2010. The act extends the expiration date until December 31, 2016

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 Insurance, Financial Institutions and Professional Registration  
Department of Agriculture  
Office of Administration - Budget and Planning  
Department of Revenue



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