COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3497-02
Bill No.: SCS for SB 718
Subject: Business and Commerce; Economic Development; Employees - Employers; Tax Credits
Type: Original
Date: February 8, 2008

Bill Summary: This proposal modifies provisions of certain tax credit programs administered by the Department of Economic Development

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
General Revenue	$0 to ($30,000,000)	$0 to ($30,000,000)	$0 to ($30,000,000)
Total Estimated Net Effect on General Revenue Fund*	**$0 to ($30,000,000)**	**$0 to ($30,000,000)**	**$0 to ($30,000,000)**

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**

*** 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.

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
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 2009	FY 2010	FY 2011
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 **Department of Revenue** assume the proposal will not fiscally impact their agency.

Officials from the **Office of Administration - Budget and Planning (BAP)** state this proposal extends the sunset on the jobs retention portion of the Quality Jobs program, raises the cap on the Enhanced Enterprise Zone program from $14 million to $24 million, and raises the cap on the Quality Jobs program from $40 million to $60 million. This program may therefore reduce general and total state revenues by $30 million. However, these increases may induce additional revenues that could offset these losses. BAP defers to the Department of Economic Development for any such estimate.

Officials from the **Department of Economic Development (DED)** state the bill increases the caps on annual issuance of tax credits under the Enhanced Enterprise Zone (EEZ) from $14 million to $24 million and Missouri Quality Jobs (MQJ) Acts from $40 to $60 million plus extends the program to August 30, 2013. DED projections show the EEZ $10 million cap increase will generate $6.42 per year in Net General Revenue for every $1 dollar of the tax credits returns. This would amount to $6.42 million per year increase to GR. The MQJ cap increase of $20 million will generate $11.39 per year in Net General Revenue for every $1 dollar of the tax credits returns: This would amount to $22.78 million per year increase to GR.

DED assumes a positive impact on GR and no current need for new personnel or funding to support the cap increases.

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 tax credits each year.

ASSUMPTION (continued)

Regarding changing the sunset date of tax credits for job retention projects authorized under the Missouri Quality Jobs Act from 2007 to 2013, **Oversight** assumes there would be no net fiscal impact as the credit would be issued under one program or another, but would still be under the over-all $40 million (now changed to $60 million) annual limit.

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 $30,000,000 of credits are issued, Oversight would assume$29,550,000 (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.

FISCAL IMPACT - State Government	FY 2009 (10 Mo.)	FY 2010	FY 2011
GENERAL REVENUE FUND			
Loss - increase in tax credits under Enhanced Enterprise Zone program from $14 million to $24 million annually	$0 to ($10,000,000)	$0 to ($10,000,000)	$0 to ($10,000,000)
Loss - increase in tax credits under Quality Jobs program from $40 million to $60 million annually	$0 to ($20,000,000)	$0 to ($20,000,000)	$0 to ($20,000,000)
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	**$0 TO ($30,000,000)**	**$0 TO ($30,000,000)**	**$0 TO ($30,000,000)**

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.

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

FISCAL IMPACT - Small Business

Small businesses that qualify for the Quality Jobs program or the Enhanced Enterprise Zone credits may be positively fiscally impacted as a result of this proposal.

FISCAL DESCRIPTION

The proposal increases the cap on annual issuance of tax credits for the enhanced enterprise zone tax credit program from fourteen million to twenty four million dollars. Under current law, no new tax credits may be approved by the department of economic development for job retention projects, authorized under the Missouri Quality Jobs Act, after August 30, 2007. This act extends the sunset to August 30, 2013. The maximum amount of tax credits which may be issued annually under the Missouri quality jobs act is increased from forty million dollars to sixty million dollars.

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

Mickey Wilson

Mickey Wilson, CPA
Director
February 8, 2008