COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3497-07
Bill No.: HCS for SS for SCS for SB 718
Subject: Economic Development; Tax Credits; Taxation and Revenue
Type: Original
Date: April 28, 2008

Bill Summary: This proposal provides for tax incentives for business development.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
General Revenue	($261,869) to (Unknown)	($281,658) to (Unknown)	($290,109) to (Unknown)
Total Estimated Net Effect on General Revenue Fund*	**($261,869) to (UNKNOWN)**	**($281,658) to (UNKNOWN)**	**($290,109) to (UNKNOWN)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Blind Pension	(Unknown)	(Unknown)	(Unknown)
Various	(Unknown)	(Unknown)	(Unknown)
Total Estimated Net Effect on Other State Funds*	**(UNKNOWN)**	**(UNKNOWN)**	**(UNKNOWN)**

*** 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 20 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	5 FTE	5 FTE	5 FTE
Total Estimated Net Effect on FTE	**5 FTE**	**5 FTE**	**5 FTE**

☒ 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*	**(Unknown)**	**(More than $4,000,000)**	**(Unknown)**

*** 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 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. The bill makes a change to the Neighborhood Assistance Tax (NAP) credit program by permanently re-allocating credits. These program changes would require an FTE plus expense and equipment (E&E) to administer this increased activity. The bill expands 135.950 RSMo the Enhanced Enterprise Zone (EEZ) program to include "Mega" projects. DED can't approve any mega-projects after December 31, 2008 and no credits can be issued prior to July 1, 2010. A professional third party feasibility analysis has to be conducted on behalf of the state and a professional third party financial analysis on the project. DED assumes these will be paid for by the tax credit recipient. A contract must be executed between DED and the tax credit recipient.

The DED would need a person to administer the Equity Investment Tax Credit Program. The bill also creates a sales tax exemption which will have no impact on DED. This exemption and the impact would have to be projected by the Department of Revenue. Changes to the Brownfield Program (447.708 RSMo.) will have a positive but unknown economic impact. Credit approval is at DED discretion and applications must show positive impact over a 10 year period to be approved. The bill has an emergency clause so changes would go into effect upon passage. Other changes should have no impact on DED. For the Qualified Research Credit, DED would be required to administer the tax credit program. DED would need one Economic Development Incentive Specialist II plus related costs. This version deletes the 3 year average requirement for the credit.

DED assumes a positive impact on GR resulting from increases to the Missouri Quality Jobs and Enhanced Enterprise Zone tax credit caps and extension of the MQJ program. DED assumes the re-allocation of a portion of the Neighborhood Assistance Tax Credit cap to the Development Tax Credit will have no fiscal or administrative impact on DED. DED assumes an increase of $1.5 million per year in the incubator tax credit. These changes will require one FTE plus E&E. The DED assumes the Equity Investment Tax Credit will require one person to administer. DED assumes the Equity Investment Tax Credit cost $5 million per year and positive economic benefits will offset costs by year three. DED assumes costs shown in FY ‘09 may be needed sooner and be requested through emergency appropriation if the bill goes into effect prior to July 1, 2008 (FY 09).

ASSUMPTION (continued)

DED assumes the fiscal impact of the EEZ change for Mega projects is unknown but positive. DED assumes minimal to no administrative impact from this proposed legislation. Qualified Research - DED assumes the need for one FTE and related costs to administer the program. DED assumes the new annual credit limit to be $10 million and the credit is no longer discretionary. Over all costs would include three personnel and associated costs which are detailed in the financial page. These costs would be offset by an unknown but positive economic benefit to Missouri.

DED is not able to project the impact of the sales tax exemption. DED assumes the EEZ changes will generate $6.42 million per year and MQJ changes will generate $22.78 million per year increase in GR. There will be no impact on GR from the NAP change. The increase of $1.5 million to the Incubator Tax Credit will decrease GR by that amount and could be offset by some unknown positive benefits. The DED is unable to project the impact of the Equity Tax Credit. The credit could reduce GR by $5 million per year and this amount could be offset by some positive economic benefits to Missouri. DED statistics show that, over a 5 year period, creation and retention of 153 new professional/technical jobs would offset the GR cost of $5 million in tax credits issued in one year.

Additional jobs above that level would make recovery of the credits occur faster. Revenue to the state will exceed credits as the program moves forward. DED projects a $5 million cost each fiscal year with subsequent generation of positive economic beginning in the second fiscal year. Exact over all the impact on GR is unknown but assuming the creation of slightly over 300 jobs for each $5 million in credits would allow the program to come close to break even in the third fiscal year and forward with only 50% recovery projected in the second fiscal year. Each subsequent fiscal year would be a positive economic gain for GR. The expansion of the Enhanced Enterprise Zone 135.950 RSMo. allows for $40 million per year in credits which the bill requires to be re-paid. DED has analysis from our Missouri Economic Research and Information Center (MERIC) that indicates the present value of future benefits for one project will be $250 million at a minimum and create many indirect jobs and service related jobs in addition to jobs created directly. DED has also worked with one private analyst which indicates a much higher rate of return on investment.

DED is unsure of when the credits may be authorized. Based on these facts, DED shows no negative impact and assumes there would be a positive but unknown over all fiscal impact. The bill revives the Qualified Research and Development Tax Credit at a rate of $10 million per year. This cost could be offset by some positive but undetermined economic benefits to the state. Only cost is projected in this fiscal note.

ASSUMPTION (continued)

Officials from the **Department of Revenue (DOR)** state Personal Tax would require one Tax Processing Technician I for every 6,000 claims for each of the following parts of the bill:

- Section 135.968 - Mega Projects; and
- Section 348.274.8 - Angel Investors

The Corporate Tax Section would also require one Revenue Processing Technician I for every 5,200 additional errors generated as well as 2,080 pieces of additional correspondence generated for the Mega Projects and the Angel Investors Program.

In summary, DOR assumes the need for six (6) new FTE at a cost of roughly $270,000 per year to administer the changes in this proposal.

Due to the Statewide Information Technology Consolidation, DOR's response 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 2 existing CIT III for 2 months for modifications to MINITS. The estimated cost is $16,744.

DOR also assumes the language added in Section 144.057 would not have a fiscal impact to the state as these munitions are already determined to be sales tax exempt based upon a letter ruling.

In response to a similar proposal from this year (HB 2058), DOR assumed the need for just one new FTE. This proposal has more changes and more tax credit programs; therefore, **Oversight** will assume DOR will be able to administer the programs in this proposal with two additional FTE.

Oversight has, for fiscal note purposes only, changed the starting salary for DED's Economic Development Incentive Specialist II and DOR's Tax Processing Tech I/Revenue Processing Tech I 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 and policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. Oversight also assumes neither the DED nor the DOR will incur additional floor space expense for their additional FTEs.

ASSUMPTION (continued)

Officials from the **Office of Administration - Budget and Planning (BAP)** state the proposal creates a new tax credit for "mega-projects" in enterprise zones with an annual cap of $40 million. This will decrease general and total state revenues by that amount.

Further, the taxpayer is required to develop an acceptable repayment plan for the tax credits received. BAP presumes the entire amount of tax credits redeemed will eventually be repaid. Thus, it appears the net fiscal impact of this proposal is neutral over the life of the project and repayment plan.

In addition, the proposal also creates the "Mega-Project Fund" which shall be used to offset any negative cash flow resulting from the redemption of mega-project tax credits. Subject to appropriation, moneys in the fund would be used to offset the mega-project tax credits redeemed. BAP assumes any appropriated amount would be a cost to general revenue, but as credits are redeemed over the life of the project, general revenue would be reimbursed by the Mega-Project Fund and would therefore be an increase to general revenue.

This proposal excludes sales to or by public utilities and telecom providers from local sales tax. BAP defers to the DOR for an estimate of any such revenues.

This proposal changes the definition of commercial aircraft from seven to three thousand pounds maximum certified gross take-off weight and exempts other property from taxation. This proposal will have no impact on general revenues, but may impact the Blind Pension Fund. BAP defers to the State Tax Commission for any such impact.

This proposal modifies the Quality Jobs Program by removing the cap on the annual amount of tax credits issued. BAP defers to the DED for an estimate of any such revenues.

This proposal also modifies the Enhanced Enterprise Zone Tax Benefit Program by prohibiting taxpayers from simultaneously receiving a tax credit under this program and the Quality Jobs Act.

This proposal changes the amount of tax credits allowed for Enhanced Business Enterprises from $14 million to $24 million annually.

This proposal creates a property tax credit program for the maintenance of qualifying railroad rolling stock. The state shall reimburse local governments for lost revenues. BAP defers to the State Tax Commission for an estimate of any such revenues.

This proposal would allow historic tax credits to be used by municipal library districts for

ASSUMPTION (continued)

renovation and repair if they were placed into service before the year 1936. This proposal would reduce general and total state revenues by an unknown amount.

This proposal changes the amount of tax credits allowed annually for the Small Business Incubators Act from $500,000 to $2 million.

This proposal also changes the amount of tax credits allowed for qualified research expenses from $9 million to $10 million.

Finally, these changes may induce economic activity which may indirectly generate additional general and total state revenues. BAP defers to the DED for an estimate of any such revenues.

Officials from the **Department of Natural Resources (DNR)** state changes made in section 447.708 could result in changes in the number or locations of entities utilizing the tax credits, which could change the number of people enrolling in the Brownfield Voluntary Cleanup Program. DNR is unable to determine the number of sites that may enroll based on the changes in the tax credits. Oversight activities of these sites would be addressed with existing resources. DNR would not anticipate a direct fiscal impact from these provisions.

Beginning January 1, 2009, but not after January 1, 2015, section 144.030 would authorize a state and local sales and use tax exemption on materials, replacement parts, and equipment purchased for use directly upon, and for the modification, replacement, repair, and maintenance of aircraft, aircraft power plants, and aircraft accessories.

Section 144.057 would authorize a state and local sales and use tax exemption on all tangible personal property included on the United States munitions list, as provided in 22 CFR 121.1, sold to or purchased by any foreign government or agency or instrumentality of such foreign government which is used for a governmental purpose.

DNR's Parks and Soils Tax Fund is derived from one-tenth of one percent sales and use tax pursuant to Section 47(a) of the Missouri Constitution. Therefore, any additional sales and use tax exemption would be an unknown loss to the Parks and Sales Tax Fund.

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

ASSUMPTION (continued)

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.

Officials from the **Office of the Secretary of State (SOS)** assume 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 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.

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.

Oversight assumes that without the changes to Section 32.105, the Development Tax Credit program's annual limit would return from $6 million a year to $4 million a year. However, also without this proposal, the Neighborhood Assistance Program would revert from its cap of $16 million in FY 2007, to $18 million in FY 2009. Therefore, based upon the reallocation of the $32 million of tax credits within Section 32.105, Oversight will reflect a potential loss of $2 million annually from the DTC, and an offsetting $2 million savings from the NAP.

Oversight assumes the proposal removes the Brownfield 'Demolition' tax credit and incorporates it into the Brownfield 'Remediation' tax credit. According to DED's Tax Credit Analysis page, the issuances for the demolition tax credit in the past three years has been $0 in FY 2005, $37,500 in FY 2006 and $0 again in FY 2007. Therefore, Oversight will not assume any savings will be realized from the removal of this program. Oversight will utilize DED's estimate of no impact for the changes to the Brownfield Remediation since the program is discretionary. Oversight already reflected a $0 to Unknown cost for this program since there is no annual limit and that analysis is still appropriate. Oversight assumes the changes made in this substitute may increase the utilization of the program, but that is at the discretion of the Department of Economic Development.

ASSUMPTION (continued)

According to the **Department of Revenue**, the addition of Section 144.057 (sales tax exemption on munitions) would have no fiscal impact on the state. DOR stated this exemption is already in place with a letter ruling, and this section simply adds the language to statutes. Therefore, **Oversight** will not assume a loss of revenue from this section.

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.

Oversight will range the fiscal impact of the 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.

The **City of St. Louis** did not respond to our request for fiscal impact.

Possessor interest in property in or on ultimate airport boundary;

In response to a similar proposal from this year (HCS for HB 1836), officials from the **State Tax Commission** (TAX) assumed this proposal would have no fiscal impact on their organization. TAX officials stated that the proposal would nullify the assessment of this type of property, and could have a fiscal impact to local governments. TAX officials were not able to provide an estimate of the number or current assessed valuation of eligible properties.

Oversight assumes that this part of the amendment could apply to certain leased real property which is on or adjacent to a commercial airport and owned by a political subdivision. The proposal would specify a method for determining the assessed valuation for tax purposes of such properties. Oversight assumes the assessed valuation of such properties would be reduced if this proposal was implemented. The proposal would become effective after 2008 taxes are determined and would become effective for 2009 taxes in FY 2010. Accordingly, Oversight concludes that the fiscal impact to local governments and the Blind Pension Fund for years after FY 2009 is unknown.

ASSUMPTION (continued)

Property Tax Credit for Rolling Stock Expenditures

Officials from the State Tax Commission (TAX) state this part of the amendment creates a tax credit for a freight line company's ad valorem property tax. TAX assumes that only those freight line companies that are defined by Section 137.1003. (4) RSMo will be eligible for the tax credit.

There are approximately 345 freight line companies that could qualify for this credit. In calendar year 2006, the amount of freight line ad valorem property tax was $3.5 million dollars and in calendar year 2007, the amount of freight line ad valorem property tax was $4.1 million dollars.

TAX assumes that in calendar year 2007 and the subsequent following years the amount of taxes would be approximately $4 million dollars. If we assume that each of these companies will have significant eligible expenses to off-set the total amount of tax due, the State of Missouri will be required to annually reimburse the local political subdivision approximately $4 million dollars. This credit is effective on January 1, 2009 with the property taxes collected in FY 2010.

Oversight will use the State Tax Commission estimate of tax credits allowable and the reimbursement due to political subdivisions. The reimbursement for local revenues lost would be known in FY 2010, and appropriated and paid in FY 2011.

Section 135.155 - New or Expanded Business Facility;

Oversight assumes the changes made to the New or Expanded Business Facility program may increase the utilization of the program. The program is an entitlement program and does not have an annual cap. Therefore, Oversight assumes this part of the proposal may increase the amount of tax credits issued under the program by an unknown amount. Oversight will range the fiscal impact from this part of the proposal from $0 to (Unknown).

Sections 135.535 & 135.562 - Rebuilding Communities & Disabled Access Tax Credit;

Officials from the **Department of Social Services** assume no fiscal impact from this proposal.

Oversight assumes this part of the proposal would earmark any unused Rebuilding Communities Program tax credits ($8 million annual cap per DED) to the new Accessible Home Tax Credit program. According to DED's Tax Credit Analysis, the amount of tax credits issued under the Rebuilding Communities program was $1.7 million in FYs 2005, 2006, and 2007. DED's projection for FY 2008 and FY 2009 are for issuances of $1.75 million each year. Therefore, with an $8 million annual cap, this proposal could increase tax credit issuances by $6.2 million ($8 million annual cap - $1.7 million current utilization - $100,000 current transfer to Section

ASSUMPTION (continued)

135.562).

For budgeting purposes, Oversight assumes this part of the proposal could reduce Total State Revenues by $6.2 million each year. However, since **Oversight** has already reflected the potential loss of the Rebuilding Communities tax credit program of up to annual limit, Oversight will assume this proposal does not increase the annual limit (of $8 million), and therefore, the fiscal impact of the proposal has already been reflected in a prior fiscal note. Therefore, even though this part of the proposal will increase utilization of the tax credit program, Oversight will not reflect an additional loss of revenue to the General Revenue Fund.

Section 144.030 - Sales tax exemption for aircraft materials, parts and equipment;

Oversight assumes this part of the proposal would have an unknown negative impact to the General Revenue Fund, the Conservation Commission Fund, the Parks Fund, the Soils and Waters Fund, and to local governments.

Section 155.010 - Property tax on commercial aircraft;

In response to a similar proposal from this year (HB 2221), officials from the **State Tax Commission (TAX)** stated that this could increase the workload of the TAX Original Assessment Unit by moving the assessment of some aircraft from the local political subdivision to the state level. The amount of workload increase is unknown because TAX does not have any information available on how many owners of commercial aircraft would elect to have their airplanes state-assessed.

Currently aircraft whose maximum certified gross take-off weight is less than seven thousand pounds and is fully equipped for flight is locally assessed. The locally assessed valuation is based on 33 1/3% of the wholesale value of the aircraft. The proposal would allow the aircraft owner to elect to have his aircraft state-assessed which would allocate property taxes based on miles flown in the state of Missouri. If the aircraft flies 50% of their miles outside the state of Missouri, their property taxes could be reduced to one-half of what they currently pay.

TAX assumes there could be as many as 2,600 locally assessed airplanes; however, TAX does not have any information available to estimate the assessed value of these airplanes or how much local revenue may be lost.

Oversight assumes this proposal would cause an unknown loss of property tax revenues to local governments and to the Blind Pension Fund. Oversight assumes the State Tax Commission could absorb the additional workload with existing resources; if unanticipated costs are incurred

ASSUMPTION (continued)

or if multiple proposals are enacted which increase the State Tax Commission workload, resources could be requested through the budget process.

This proposal could reduce Total State Revenues.

FISCAL IMPACT - State Government	FY 2009 (10 Mo)	FY 2010	FY 2011
GENERAL REVENUE FUND			
Savings - Neighborhood Assistance Program, cap reallocated from $18 million to $16 million annually (32.105)	$0 to $2,000,000	$0 to $2,000,000	$0 to $2,000,000
Loss - Development Tax Credit program, cap reallocated from $4 million to $6 million (32.105)	$0 to ($2,000,000)	$0 to ($2,000,000)	$0 to ($2,000,000)
Savings - Rebuilding Communities tax credit program Section 135.535 (to new program)	$0 to $6,200,000	$0 to $6,200,000	$0 to $6,200,000
Loss - tax credit for making all or portion of dwellings accessible to an individual with a disability - Section 135.562	$0 to ($6,200,000)	$0 to ($6,200,000)	$0 to ($6,200,000)
Loss - potential increase in tax credits issued under the New and Expanded Business Facility Credit - Section 135.155	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
Loss - Mega Projects tax credit (Section 135.968)	$0	$0	$0 to ($40,000,000)
Loss - Sales tax exemption for aircraft parts, materials, accessories and equipment - Section 144.030	(Unknown)	(Unknown)	(Unknown)

FISCAL IMPACT - State Government (continued)	FY 2009 (10 Mo)	FY 2010	FY 2011
Costs - Department of Economic Development			
Personal Service (3 FTE)	($96,913)	($119,784)	($123,378)
Fringe Benefits	($42,855)	($52,968)	($54,558)
Expense and Equipment	($53,451)	($40,488)	($41,703)
ITSD Hours	($2,502)	$0	$0
Total Costs - DED	($195,721)	($213,240)	($219,639)
FTE Change - DED	3 FTE	3 FTE	3 FTE
Costs - Department of Revenue			
Personal Service (1 FTE)	($37,802)	($46,722)	($48,124)
Fringe Benefits	($16,716)	($20,660)	($21,280)
Expense and Equipment	($11,630)	($1,036)	($1,066)
Total Costs - DOR	($66,148)	($68,418)	($70,470)
FTE Change - DOR	2 FTE	2 FTE	2 FTE
Loss - increase in tax credits under Enhanced Enterprise Zone program from $14 million to $24 million annually (135.967)	$0 to ($10,000,000)	$0 to ($10,000,000)	$0 to ($10,000,000)
Loss - Historic Preservation tax credits now available for municipal library districts for renovation and repair if they were placed into service before the year 1936 (Section 253.550)	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
Loss - tax credits for equity investments into technology-based early state Missouri companies (348.274)	$0 to ($5,000,000)	$0 to ($5,000,000)	$0 to ($5,000,000)
Loss - increase in tax credits under the Small Business Incubator program from $500,000 to $2 million (620.495)	$0 to ($1,500,000)	$0 to ($1,500,000)	$0 to ($1,500,000)

FISCAL IMPACT - State Government (continued)	FY 2009 (10 Mo)	FY 2010	FY 2011
Loss - Qualified Research Tax Credit - currently cumulative cap exhausted, changing to a $10 million annual cap (Section 620.1039)	$0 to ($10,000,000)	$0 to ($10,000,000)	$0 to ($10,000,000)
Loss - removal of cap of $40 million in tax credits under Quality Jobs program (Section 620.1881)	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
Loss - reimbursement of local tax reductions from qualified rolling stock (Section 137.1018)	$0	$0	$0 to ($4,000,000)
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	**($261,869) TO (UNKNOWN)**	**($281,658) TO (UNKNOWN)**	**($290,109) TO (UNKNOWN)**
Estimated Net FTE Change for General Revenue Fund	5 FTE	5 FTE	5 FTE

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.

BLIND PENSION FUND			
Revenue reduction - property taxes (from Section 137.115)	$0	(Unknown)	(Unknown)
Revenue reduction - property taxes (from Section 155.010)	(Unknown)	(Unknown)	(Unknown)
ESTIMATED NET EFFECT TO THE BLIND PENSION FUND	**(Unknown)**	**(Unknown)**	**(Unknown)**

FISCAL IMPACT - State Government (continued)	FY 2009 (10 Mo)	FY 2010	FY 2011
VARIOUS STATE FUNDS			
Loss - to State School Moneys fund, Parks and Soils fund and Conservation Fund - sales tax exemption on aircraft parts and equipment (Section 144.030)	(Unknown)	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON VARIOUS STATE FUNDS	**(Unknown)**	**(Unknown)**	**(Unknown)**

FISCAL IMPACT - Local Government	FY 2009 (10 Mo.)	FY 2010	FY 2011
LOCAL GOVERNMENTS			
Reimbursement - for revenue reduction (from State for Section 137.1018)	$0	$0	$4,000,000
Revenue reduction - tax credits (from Section 137.1018)	$0	($4,000,000)	($4,000,000)
Revenue reduction - property taxes (from Section 137.115)	$0	(Unknown)	(Unknown)
Revenue reduction - property taxes (from Section 155.010)	(Unknown)	(Unknown)	(Unknown)
Revenue Reduction - to certain local political subdivisions- sales tax exemption on aircraft parts and equipment (Section 144.030)	(Unknown)	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS	**(Unknown)**	**(More than $4,000,000)**	**(Unknown)**

FISCAL IMPACT - Small Business

Small businesses that qualify for the various programs changed or enacted by this proposal may be positively fiscally impacted as a result of this proposal.

FISCAL DESCRIPTION

This act increases the amount of tax credits which may be issued in any fiscal year, under the Neighborhood Assistance Act, for economic development projects from four million dollars to six million dollars.

Currently, any community improvement district (CID) in St. Louis City which is also in a special business district cannot levy a CID sales tax unless special assessments imposed on real property or businesses within the special business district are repealed. The act allows CIDS to exist in special business districts within the City of St. Louis and excludes sales by public utilities and providers of communications, cable, or video services from CID sales tax.

An existing headquarters may receive tax credits for new or expanded business facilities for expansions done before January 1, 2018. At least five hundred new employees and at least twenty million dollars in new investment must be attributed to the expansion. Buildings on multiple, non-contiguous property will be considered one facility if the buildings are within five miles of each other.

Under current law, up to one hundred thousand dollars in tax credits from the Rebuilding Communities Tax Credit Program can be issued to taxpayers who modify their home to be accessible for a disabled individual who resides with the taxpayer. This act allows all unused tax credits from the Rebuilding Communities Tax Credit Program to be used by taxpayers who modify their homes for this purpose.

The director of the department of economic development is authorized to issue binding letter rulings regarding an applicant's eligibility for issuance of tax credits under the new markets tax credit program.

The act creates a new type of program under the Enhanced Enterprise Zone Tax Benefit Act known as mega-projects. A taxpayer who establishes a mega-project within an enhanced enterprise zone will be allowed an income tax credit equal to a percentage of the taxpayer's new annual payroll for employees located at the project. In order to be approved as a mega-project, the new capitol investment must be projected to exceed three hundred million dollars and the project must be projected to create at least one thousand new jobs over a period of eight years. The new jobs created must have an average wage in excess of the county average wage and the taxpayer must offer health insurance to all new jobs and pay at least eighty percent of the

FISCAL DESCRIPTION (continued)

premiums for such insurance. The taxpayer must provide an acceptable plan for repayment of tax credits received. Prior to final approval of a mega-project, the department and the taxpayer must enter into a binding contract which: sets out the taxpayer's repayment plan; obligates the taxpayer to construct the facility; and provides specific internal rates of return.

The Department of Economic Development is prohibited from approving any mega-projects after December 31, 2008, and from issuing any tax credits prior to July 1, 2010. The Department of Economic Development is prohibited from issuing more than forty million dollars in tax credits for all mega-projects annually. A taxpayer who receives approval for a mega-project may receive tax credits for up to twenty-two years to be used to offset income tax liabilities. No taxpayer may receive more than forty million dollars in mega-project tax credits annually. Any taxpayer who receives mega-project tax credits must provide an annual report to the Department of Economic Development containing the number of new jobs at the project site and the new annual payroll. A taxpayer who has been approved for issuance of mega-project tax credits will not receive tax credits in any year in which such taxpayer fails to meet eligibility requirements.

The act creates the Mega-Project Fund. Upon appropriation, moneys in the fund will be used to offset negative cash flow resulting from the redemption of mega-project tax credits. If no mega-project is approved before December 31, 2008, all moneys in the fund will revert to the general revenue fund. Moneys in the fund will not be subject to the biennial fund sweep, but any moneys remaining in the fund on June 30, 2018, will revert to the general revenue fund.

The true value in money for assessment purposes of any possessor interest in real property located on or within the ultimate airport boundary shown by a federal airport layout plan of the Kansas City International Airport will be the true value in money of the possessor interest in the real property less the total costs paid toward any new construction or improvements completed on the property after January 1, 2008, if included in the possessor interest, unless paid by the political subdivision, regardless of the year the costs were incurred.

The act creates a property tax credit, beginning January 1, 2009, for expenses incurred to manufacture, maintain, or improve a freight line company's qualified rolling stock up to the amount of its tax liability. The state will annually reimburse a political subdivision for any loss in revenue.

Under current law, purchases of materials, replacement parts and equipment purchased for use directly upon, and for the repair and maintenance or manufacture of aircraft engaged as common carriers of people and property are exempt from state and local sales tax. This act would expand the exemption to apply purchases of materials, replacement parts and equipment purchased for use directly upon, and for the modification, repair, replacement and maintenance of aircraft,

FISCAL DESCRIPTION (continued)

aircraft power plants, and aircraft accessories from January 1, 2009, to January 1, 2015. All sales of tangible personal property included on the United States munitions list that are made to a foreign government for a governmental purpose are exempted from state and local sales and use tax. The definition of "commercial aircraft" as it relates to the taxation of aircraft is modified by lowering the maximum certified gross take-off weight from seven thousand to three thousand pounds

Certain municipal library districts which have transferred a structure at least seventy-two years old to a nonprofit entity for rehabilitation are allowed to be deemed a corporation and a for-profit entity for the purposes of the Historic Preservation Tax Credit Program.

The Department of Economic Development may authorize up to five million dollars in tax credits per year to encourage equity investment in technology-based early stage Missouri companies, commonly referred to as angel investments. Investors who contribute the first five hundred thousand dollars in equity investment to a qualified Missouri business may be issued a tax credit equal to thirty percent of the investment or forty percent of the investment if the qualified business is in a rural area or distressed community. An investor can receive a credit of up to fifty thousand dollars for an investment in a single qualified business and up to one hundred thousand dollars for investments in more than one qualified business per year. These credits can be carried forward for up to three years or sold.

Currently, some demolition activities associated with Brownfield redevelopment are separate from remediation activities. The act specifies that all demolition activities are part of remediation and allows remediation tax credits to include up to one hundred percent of demolition costs that are not directly part of the remediation but are necessary to accomplish the planned use of the facility. Demolition may occur on adjacent property that independently qualifies as abandoned or underutilized and is located in a municipality with fewer than twenty thousand residents.

Current law prohibits the approval, award, or issuance of tax credits for qualified research expenses after January 1, 2005. The act removes the prohibition on approval, award, and issuance and allows a tax credit equal to no more than six and one-half percent of a taxpayer's qualified research expenses. The annual aggregate cap on the amount of these tax credits that can be authorized by the department is increased from nine million to ten million dollars. Qualified research expenses will be limited to those incurred in the research and development of agricultural biotechnology, plant genomics products, diagnostic and therapeutic medical devices, and prescription pharmaceuticals consumed by humans or animals. Expenses incurred in the research, development, and manufacturing of power system technology for aerospace, space, defense, or implantable or wearable medical devices are also permitted. The director of the

FISCAL DESCRIPTION (continued)

department of economic development may allow a taxpayer to transfer up to forty percent of the tax credits issued, but not yet claimed, between January 1, 2009, and December 31, 2015. Applications for qualified research expense tax credits must be filed between January 1st and July 1st for claims for the previous year and the director must act on such applications between August 1st and August 15th of each year. No one taxpayer can be issued more than thirty percent of the total amount of tax credits authorized in any calendar year.

The cap on annual issuance of tax credits for the enhanced enterprise zone tax credit program is increased from fourteen million to twenty four million dollars.

The aggregate cap on tax credits which may be issued annually under the Small Business Incubators Act is increased from five hundred thousand dollars to two million dollars. A local sponsor or organization receiving assistance through a local sponsor under the small business incubators act must provide annual reports, to the department of economic development, containing the identity of tenants within each incubator, a brief description of the nature of the business of each such tenant, and the date in which each such tenant established tenancy within the incubator. The department of economic development must annually provide the general assembly and the governor with a report containing the information provided by local sponsors and organizations receiving assistance from local sponsors.

Currently, the Department of Economic Development is prohibited from issuing more than forty million dollars in tax credits for the Quality Jobs Program annually. The act eliminates the annual cap on tax credit issuance under the Quality Jobs Program. The Quality Jobs Act definition of the term "project facility", is modified to include separate buildings located within one mile of each other or within the same county. The Quality Jobs Act definition of the term "technology business project" is expanded to include any qualified company which owns or leases a facility which produces electricity, or fuel for the generation of electricity, derived from qualified renewable energy sources. 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 proposal has an emergency clause for Section 620.495 (Small Business Incubator) only.

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 - Budget and Planning
Department of Insurance, Financial Institutions and Professional Registration
Department of Natural Resources
State Tax Commission
Office of the Secretary of State
Department of Social Services

NOT RESPONDING:
City of St. Louis

Mickey Wilson

Mickey Wilson, CPA
Director
April 28, 2008