

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4495-06
Bill No.: HB 2058
Subject: Economic Development; Tax Credits; Taxation and Revenue
Type: Original
Date: February 19, 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	(\$96,031) to (\$38,596,031)	(\$103,498) to (\$38,603,498)	(\$106,602) to (\$38,606,602)
Total Estimated Net Effect on General Revenue Fund*	(\$96,031) to (\$38,596,031)	(\$103,498) to (\$38,603,498)	(\$106,602) to (\$38,606,602)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Total Estimated Net Effect on <u>Other</u> 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 9 pages.

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

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
General Revenue	2 FTE	2 FTE	2 FTE
Total Estimated Net Effect on FTE	2 FTE	2 FTE	2 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*	\$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 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 \$2 million dollars in credits. The law has been this way the last three fiscal years and DED feels there will be no change by making this a permanent change to the law. The legislation includes an increase of \$1.5 million annual Incubator Tax Credit. These program changes would require an FTE plus Expense & Equipment to administer this increased activity.

DED state they are 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 General Revenue. There will be no impact on General Revenue from the Neighborhood Assistance Program change. The increase of \$1.5 million to the Incubator Tax Credit will decrease General Revenue by that amount and could be offset by some unknown positive benefits. The DED/Missouri Technology Corporation (MTC) is unable to project the impact of the Equity Tax Credit. The credit could reduce General Revenue 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 General Revenue 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 General Revenue 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 General Revenue.

The MTC would need a person to administer the Equity Investment Tax Credit Program. This person would be funded by fees collected from entities receiving the tax credit so the employee will be hired by MTC as a non-state employee. 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 DOR.

ASSUMPTION (continued)

DED assumes the cost of the new FTE (Economic Development Incentive Specialist II at \$42,288 annually) to be roughly \$85,000 annually.

Officials from the **Department of Revenue (DOR)** state Personal Tax would require one Tax Processing Technician I (at \$24,636 annually) for every 6,000 credits claimed. DOR assumes the need for one additional FTE for the changes made within this proposal.

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.

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 1 month for modifications to MINITS and 3 existing CIT III for 1 month for modifications to COINS, CAFÉ, and Corporate E-File. The estimated cost is \$20,930.

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 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.

Officials from the **Office of Administration - Budget and Planning (BAP)** state the proposal modifies various tax credit programs. 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.

This proposal increases the annual cap of the Neighborhood Assistance Program from \$4 million to \$6 million. This will reduce general and total state revenues by \$2 million annually.

ASSUMPTION (continued)

This proposal increases the annual cap on the Enhanced Enterprise Zone Program from \$14 million to \$24 million. This will reduce general and total state revenues by \$10 million annually.

This proposal exempts from state and local sales and use taxes all personal property included on the United States munitions list that is sold to or purchased by a foreign government for a governmental purpose. This may reduce general and total state revenues. BAP defers to the DOR for an estimate of reduced revenues.

This proposal creates \$5 million in tax credits per year to encourage equity investment in technology-based early stage Missouri companies. Credits can be carried forward for up to three years or sold. This will reduce general and total state revenues by \$5 million annually.

This proposal increases the aggregate cap on the Small Business Incubators Tax Credit Program from \$500,000 to \$2 million. This will reduce general and total state revenues by \$1.5 million annually.

This proposal allows Quality Jobs tax credits to be issued for job retention projects until August 30, 2013. Tax credits for this project type could not be issued after August 30, 2007. This proposal will have no impact on general and total state revenues.

This proposal increases the annual cap on the amount of tax credits the department may authorize for the Quality Jobs Program from \$40 million to \$60 million. This will reduce general and total state revenues by \$20 million annually.

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.

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.

ASSUMPTION (continued)

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, this proposal makes the \$6 million annual cap permanent. Oversight will show this as a potential loss of \$2 million annually, because for FY 2008, the program cap is \$4 million, however, now under this proposal, for Fiscal Years 2009 and beyond, the program's annual cap would be \$6 million.

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 \$33,500,000 of credits are issued, Oversight would assume \$33,000,000 of credits to be redeemed, reducing Total State Revenues

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.

This proposal could reduce Total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2009	FY 2010	FY 2011
	(10 Mo.)		
GENERAL REVENUE FUND			
<u>Costs - Department of Economic Development</u>			
Personal Service (1 FTE)	(\$31,075)	(\$38,409)	(\$39,561)
Fringe Benefits	(\$14,065)	(\$17,384)	(\$17,905)
Expense and Equipment	<u>(\$17,817)</u>	<u>(\$13,496)</u>	<u>(\$13,901)</u>
<u>Total Costs - DED</u>	(\$62,957)	(\$69,289)	(\$71,367)
FTE Change - DED	1 FTE	1 FTE	1 FTE

<u>FISCAL IMPACT - State Government</u> (continued)	FY 2009 (10 Mo.)	FY 2010	FY 2011
<u>Costs - Department of Revenue</u>			
Personal Service (1 FTE)	(\$18,901)	(\$23,361)	(\$24,062)
Fringe Benefits	(\$8,358)	(\$10,330)	(\$10,640)
Expense and Equipment	<u>(\$5,815)</u>	<u>(\$518)</u>	<u>(\$533)</u>
<u>Total Costs - DOR</u>	(\$33,074)	(\$34,209)	(\$35,235)
FTE Change - DOR	1 FTE	1 FTE	1 FTE
<u>Loss - increase in tax credits under the Development Tax Credit program from \$4 million to \$6 million (32.105)</u>	\$0 to (\$2,000,000)	\$0 to (\$2,000,000)	\$0 to (\$2,000,000)
<u>Loss - increase in tax credits under Enhanced Enterprise Zone program from \$14 million to \$24 million annually (135.967)</u>	\$0 to (\$10,000,000)	\$0 to (\$10,000,000)	\$0 to (\$10,000,000)
<u>Loss - tax credits for equity investments into technology-based early state Missouri companies (348.274)</u>	\$0 to (\$5,000,000)	\$0 to (\$5,000,000)	\$0 to (\$5,000,000)
<u>Loss - increase in tax credits under the Small Business Incubator program from \$500,000 to \$2 million (620.495)</u>	\$0 to (\$1,500,000)	\$0 to (\$1,500,000)	\$0 to (\$1,500,000)
<u>Loss - increase in tax credits under Quality Jobs program from \$40 million to \$60 million annually (620.1881)</u>	\$0 to <u>(\$20,000,000)</u>	\$0 to <u>(\$20,000,000)</u>	\$0 to <u>(\$20,000,000)</u>
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	(\$96,031) TO <u>(\$38,596,031)</u>	(\$103,498) TO <u>(\$38,603,498)</u>	(\$106,602) TO <u>(\$38,606,602)</u>
Estimated Net FTE Change for General Revenue Fund	2 FTE	2 FTE	2 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.

<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

Small businesses that qualify for the Development Tax Credits, Quality Jobs program, Small Business Incubator Program, the Enhanced Enterprise Zone credits or the new equity investment in technology-based early state Missouri companies may be positively fiscally impacted as a result of this proposal.

FISCAL DESCRIPTION

This proposal changes the laws regarding tax incentives for business development. In its main provisions, the bill:

- (1) Increases the fiscal year cap for economic development tax credits that are approved as part of the Neighborhood Assistance Program from \$4 million to \$6 million;
- (2) Increases the annual cap on the Enhanced Enterprise Zones from \$14 million to \$24 million;
- (3) Exempts from state and local sales and use taxes all personal property included on the United States munitions list that is sold to or purchased by a foreign government for a governmental purpose;
- (4) Allows the Missouri Technology Corporation to authorize up to \$5 million in tax credits per year to encourage equity investment in technology-based early stage Missouri companies. Investors who contribute the first \$500,000 in equity investment to a qualified Missouri business may be issued a tax credit equal to 30% of the investment or 40% if the qualified business is in a rural area or distressed community. An investor can receive a credit of up to \$50,000 for an investment in a single qualified business and up to \$100,000 for investments in more than one qualified business per year. Credits can be carried forward for up to three years or sold;
- (5) Increases the aggregate cap on the Small Business Incubators Tax Credit Program from \$500,000 to \$2 million;
- (6) Allows Quality Jobs tax credits to be issued for job retention projects until August 30, 2013. Tax credits for this project type could not be issued after August 30, 2007; and

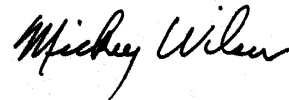
FISCAL DESCRIPTION (continued)

(7) Increases the annual cap on the Quality Jobs Tax Credit Program from \$40 million to \$60 million.

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



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