

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4495-08
Bill No.: Perfected HCS for HB 2058
Subject: Economic Development; Tax Credits; Taxation and Revenue
Type: Original
Date: April 15, 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	(\$226,293) to (Unknown)	(\$274,449) to (Unknown)	(\$254,874) to (Unknown)
Total Estimated Net Effect on General Revenue Fund*	(\$226,293) to (UNKNOWN)	(\$274,449) to (UNKNOWN)	(\$254,874) to (UNKNOWN)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Blind Pension	(Unknown)	(Unknown)	(Unknown)
Total Estimated Net Effect on <u>Other</u> 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 13 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	4 FTE	4 FTE	4 FTE
Total Estimated Net Effect on FTE	4 FTE	4 FTE	4 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	(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 goes from \$40 million to having no cap, plus extends the program to August 30, 2013. The bill makes a change to the Neighborhood Assistance Tax (NAP) credit program buy 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 E&E to administer this increased activity.

DED would need a person to administer the Equity Investment Tax Credit Program. This person could be funded by fees collected from entities receiving the tax credit but funding will have to be appropriated by DED. DED assumes GR funding for the position. DED will also need one additional person to administer the increase in Quality Jobs applications due to the removal of the credit cap. 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. 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. Changes to 67.1501 and 67.1545 will have no impact on DED. The bill has an emergency clause so changes would go into effect upon passage. Other changes should have no impact on DED.

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/MTC assumes the Equity Investment Tax Credit will require one person to administer but the costs for funding this position and associated costs will be collected from credit recipients and used to pay costs. MTC will hire this person and pay costs directly. 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). DED assumes the need for one FTE plus associated costs to administer the increase in Quality Jobs applications.

ASSUMPTION (continued)

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/MTC 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.

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.

ASSUMPTION (continued)

Officials from the **Office of Administration - Budget and Planning (BAP)** state this 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.

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. It also allows Missouri Technology Corporation to change administrative fees for issuing these tax credits. This could raise general and total state revenues by an unknown amount. BAP defers to DED for an estimate of the increased revenues.

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.

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 increased 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 Natural Resources (DNR)** state section 144.057 would exempt from state and local sales and use taxes 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.

ASSUMPTION (continued)

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 a loss to the Parks and Sales Tax Fund. The exact amount of impact from this provision is unknown. DNR assumes the Department of Revenue would be better able to estimate the fiscal impact from this provision.

The number of sites that may enroll based on the proposed changes in the tax credits is unknown. DNR assumes oversight activities of these sites would be addressed with existing resources. No fiscal impact to DNR from Section 447.708 would be anticipated.

DNR would also not anticipate a direct fiscal impact from Section 620.1878 of this proposal.

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.

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

ASSUMPTION (continued)

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.

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. 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.

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

House Substitute Amendment 1 for House Amendment 1;

This amendment makes changes to sections 137.115 and 137.1018 regarding possessor interest in real property that borders airport boundaries as well as creates a tax credit for qualified rolling stock (railcars subject to tax).

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

ASSUMPTION (continued)

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.

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.

This proposal could reduce Total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2009 (10 Mo)	FY 2010	FY 2011
GENERAL REVENUE FUND			
<u>Savings</u> - 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
<u>Costs</u> - 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	<u>(\$53,451)</u>	<u>(\$40,488)</u>	<u>(\$41,703)</u>
<u>Total Costs</u> - DED	(\$193,219)	(\$213,240)	(\$219,639)
FTE Change - DED	3 FTE	3 FTE	3 FTE
<u>Costs</u> - Department of Revenue			
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</u> - DOR	(\$33,074)	(\$34,209)	(\$35,235)
FTE Change - DOR	1 FTE	1 FTE	1 FTE
<u>Loss</u> - 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)
<u>Loss</u> - 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)
<u>Loss</u> - 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)
<u>Loss</u> - 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)

<u>Loss</u> - removal of cap of \$40 million in tax credits under Quality Jobs program (HSA 1 Section 620.1881)	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
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<u>Loss</u> - reimbursement of local tax reductions from qualified rolling stock (HSA 1 Section 137.1018)	<u>\$0</u>	<u>\$0</u>	<u>\$0 to (\$4,000,000)</u>
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ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	<u>(\$226,293) TO (UNKNOWN)</u>	<u>(\$274,449) TO (UNKNOWN)</u>	<u>(\$254,874) TO (UNKNOWN)</u>
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Estimated Net FTE Change for General Revenue Fund	4 FTE	4 FTE	4 FTE
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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

<u>Revenue reduction</u> - property taxes (from HSA 1 Section 137.115)	<u>\$0</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
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ESTIMATED NET EFFECT TO THE BLIND PENSION FUND	<u>\$0</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
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<u>FISCAL IMPACT - Local Government</u>	FY 2009 (10 Mo.)	FY 2010	FY 2011
LOCAL GOVERNMENTS			
<u>Reimbursement</u> - for revenue reduction (from State for HSA 1 Section 137.1018)	\$0	\$0	\$4,000,000
<u>Revenue reduction</u> - tax credits (from HSA 1 Section 137.1018)	\$0	(\$4,000,000)	(\$4,000,000)
<u>Revenue reduction</u> - property taxes (from HSA 1 Section 137.115)	<u>\$0</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS	<u>\$0</u>	<u>(More than \$4,000,000)</u>	<u>(Unknown)</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 Department of Economic Development 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

FISCAL DESCRIPTION (continued)

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;

(7) Removes the annual cap (currently \$40 million) on the Quality Jobs Tax Credit Program; and

(8) Amendment 1 would define the assessment valuation process for possessory interests in certain real property on or adjacent to certain commercial airports, and provide a property tax credit for freight company rolling stock improvements.

The proposal has an emergency clause for Section 620.495 (Small Business Incubator) only.

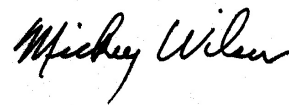
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

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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

NOT RESPONDING:
City of St. Louis

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive style with a large initial "M".

Mickey Wilson, CPA
Director
April 15, 2008