COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5349-05
Bill No.: SCS for SB nos. 1234 & 1270
Subject: Business and Commerce; Economic Development; Taxation and Revenue; Tax Credits
Type: Original
Date: March 28, 2008

Bill Summary: This proposal modifies provisions of the enhanced enterprise zone tax benefit program and establishes the mega-projects tax credit.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
General Revenue	$0	$0	$0 to ($40,000,000)
Total Estimated Net Effect on General Revenue Fund	**$0**	**$0**	**$0 to ($40,000,000)**

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**

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**

FISCAL ANALYSIS

ASSUMPTION

In response to a similar proposal from this year (HCS for HB 2393), officials from the **Office of Administration - Budget and Planning (BAP)** stated 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.

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.

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

Officials from the **Department of Economic Development (DED)** state the bill expands the Enhanced Enterprise Zone (EEZ) program to include "Mega" projects. While the change allows for $40 million per year in credits, the bill calls for all costs to be re-paid with payment happening later. 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. DED assumes minimal to no administrative impact from the proposed legislation.

Officials from the **Department of Revenue** assume this new credit will require the Form MO-TC to be modified as programming changed to the MINITS Tax System. Individuals without a Missouri tax liability would be allowed to attach the MO-TC to the MO-1040 Form and write "Mega Project" on the top of the form to claim the refund. Personal tax will require one Tax Processing Technician for every 6,000 claims. However, at this time, DOR believes the number of claims will be significantly less than 6,000. Thus, the increase will be handled with existing personnel.

The tax credits created by this section are to be reduced by any delinquency. However, DOR believes we will be able to handle this with existing staff.

ASSUMPTION (continued)

DOR may see additional contacts regarding delinquencies, and questions about the refund of the tax credits. At this point, DOR assumes the increased contacts can be handled with existing resources.

Due to the Statewide Information Technology Consolidation, DOR's response to a proposal 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. The estimated cost is $8,372.

This substitute adds language within the Enhanced Enterprise Zone program regarding mega-projects. **Oversight** assumes the new $40 million annual cap for mega-projects is above and beyond the benefits from the Enhanced Enterprise Zone program (overall cap of $14 million). Therefore, Oversight assumes this change may increase the amount of tax credits issued by DED.

Oversight assumes the changes within this proposal may increase tax credits issued by the state. Oversight assumes there would be some positive benefit to the state for issuing these credits (and getting a mega-project established in Missouri), but Oversight considers those benefits to be indirect, and have not reflected them in this fiscal note. Oversight also assumes repayment of the credits would occur in years beyond the scope of this fiscal note. DED shall not approve any credits for mega-projects before July 1, 2010. Therefore, Oversight will assume credits could potentially be issued in the third and fourth quarters of 2010, and utilized on tax returns filed in FY 2011. Therefore, Oversight will assume a potential utilization of the program of up to $40 million starting in FY 2011.

Officials from the **Department of Insurance, Financial Institutions and Professional Registration** assume the proposal would not fiscally impact their agency.

This proposal may reduce Total State Revenues.

FISCAL IMPACT - State Government	FY 2009 (10 Mo.)	FY 2010	FY 2011
GENERAL REVENUE			
Loss - DED			
Mega-projects tax credits (135.968)	$0	$0	$0 to ($40,000,000)
ESTIMATED NET EFFECT TO GENERAL REVENUE	**$0**	**$0**	**$0 to ($40,000,000)**

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

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

This act creates a new type of project 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 half of the premiums for such insurance. The taxpayer must provide an acceptable plan for repayment of tax credits received.

FISCAL DESCRIPTION (continued)

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.

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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