COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0827-01
Bill No.: SB 193
Subject: Business and Commerce; Economic Development; Tax Credits; Taxation and Revenue
Type: Original
Date: February 5, 2009

Bill Summary: This proposal creates a tax credit for equity investments in qualified Missouri businesses.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
General Revenue	($64,886) to ($2,064,886)	($69,905) to ($2,069,905)	($72,001) to ($2,072,001)
Total Estimated Net Effect on General Revenue Fund*	**($64,886) to ($2,064,886)**	**($69,905) to ($2,069,905)**	**($72,001) to ($2,072,001)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Total Estimated Net Effect on Other State Funds*	**$0**	**$0**	**$0**

*** The fiscal impact could be divided between the General Revenue Fund and the County Foreign Insurance Fund (which ultimately goes to local school districts) if some of the tax credits are utilized against insurance premium taxes.**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
General Revenue	1 FTE	1 FTE	1 FTE
Total Estimated Net Effect on FTE	**1**	**1**	**1**

☐ 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 2010	FY 2011	FY 2012
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 **Office of Administration - Budget and Planning (BAP)** state the bill proposes a tax credit for investors making equity investments in qualified early stage Missouri companies located in a distressed community. The tax credit is equal to 50% of the investor's equity investment in the business. The total amount of tax credits available for this program is $2.0 million per year.

This proposal could therefore lower general and total state revenues up to $2.0 million. This program may stimulate other economic activity, but BAP does not have data to estimate the induced revenues. DED may have such an estimate.

Officials from the **Department of Economic Development (DED)** assume the Equity Investment Tax Credit would have a negative impact to Total State Revenue of approximately $2 million a year based on the redemption of tax credits. The purpose of the Equity Investment Tax Credit is to stimulate private investment in qualified Missouri manufacturing businesses, which would in turn create additional jobs in these businesses; therefore, DED assumes an unknown positive economic impact at some point in the future depending on the number of jobs created.

The Business and Community Services (BCS) division of the Department of Economic Development would require one additional FTE to administer the Equity Investment Tax Credit program due to the anticipated amount of administration involved. The FTE would be an Economic Development Incentive Specialist III and would be responsible for reviewing the tax credit applications to make sure they meet the criteria of the program, drafting and sending the tax credit awards and ensuring compliance with the program. The related costs associated with the FTE include one-time expenditures for systems furniture, a side chair, file cabinet, calculator and telephone and recurring costs for office supplies, computer, professional development and travel.

Officials from the **Department of Revenue (DOR)** assume the proposal would not fiscally impact their agency. DOR states that due to 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. The Office of Administration Information

ASSUMPTION (continued)

Technology (ITSD DOR) estimates that this legislation could be implemented utilizing 1 existing CIT III for 2 months for system modifications to MINITS and 3 existing CIT III for 1 month for system modifications to COINS, Café, and E-file. The estimated cost is $22,205.

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.

Oversight will range the fiscal impact of the tax credits for equity investments in qualified Missouri companies from $0 (no tax credit issuances and/or redemptions) to the annual limit of $2 million.

Oversight compared the total tax credit issuances relative to the total tax credit redemptions for the previous four years in order to determine a relationship between the two. Oversight discovered that the annual redemptions ranged from 81 percent to 86 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 83 percent of tax credits issued. Therefore, under this proposal, if $2,000,000 of credits are issued under the new program, Oversight would assume $1,660,000 (83%) of credits to be redeemed, reducing Total State Revenues.

Oversight assumes there would be some positive economic benefit to the state as a result of the changes in this proposal, however, Oversight considers these benefits to be indirect and therefore, have not reflected them in the fiscal note.

This proposal could reduce Total State Revenues.

FISCAL IMPACT - State Government	FY 2010 (10 Mo.)	FY 2011	FY 2012

GENERAL REVENUE

Costs - DED			
Personal Service (1 FTE)	($35,803)	($44,252)	($45,580)
Fringe Benefits	($17,411)	($21,520)	($22,166)
Expense and Equipment	($10,421)	($4,133)	($4,255)
ITSD Hours	($1,251)	$0	$0
Total Costs - DED	($64,886)	($69,905)	($72,001)
FTE Change - DED	` 1 FTE	1 FTE	1 FTE
Loss - Tax Credit for equity investments in qualified Missouri companies (Section 348.548)	$0 to ($2,000,000)	$0 to ($2,000,000)	$0 to ($2,000,000)
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	**($64,886) to ($2,064,886)**	**($69,905) to ($2,069,905)**	**($72,001) to ($2,072,001)**
Estimated Net FTE Change for General Revenue Fund	1 FTE	1 FTE	1 FTE

FISCAL IMPACT - Local Government	FY 2010 (10 Mo.)	FY 2011	FY 2012
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

Small businesses that qualify for the programs within this bill could be positively impacted as a result of this proposal.

FISCAL DESCRIPTION

This act authorizes the Department of Economic Development to issue up to two million dollars in tax credits annually to encourage equity investments in qualified Missouri manufacturing businesses. Qualified Missouri businesses must be a manufacturing business, in need of venture capital, which will base its operations from an existing facility located in a distressed community. Such business must create at least fifty new jobs, offer health insurance to all of its full-time employees, and pay at least fifty percent of such health insurance premiums. Investors who contribute the first three million dollars in equity investment to a qualified Missouri business may be issued a tax credit equal to fifty percent of the investment. Tax credits authorized under this act can be carried forward for up to five years or sold. Qualified Missouri businesses, for which investment tax credits are issued, which fail to comply with the provisions of this act within seven years of tax credit issuance will be forced to repay the amount of tax credits issued to investors.

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
Office of Administration - Budget and Planning
Department of Revenue
Department of Insurance, Financial Institutions and Professional Registration

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