COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0837-06
Bill No.: SCS for HCS for HB 191
Subject: Business and Commerce; Economic Development; Tax Credits; Taxation and Revenue
Type: Original
Date: February 16, 2009

Bill Summary: This bill proposes various economic development changes.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
General Revenue	($4,681,329) to ($88,781,329)	($417,363) to ($90,017,363)	($429,884) to ($101,529,884)
Total Estimated Net Effect on General Revenue Fund* **	**($4,681,329) to ($88,781,329)**	**($417,363) to ($90,017,363)**	**($429,884) to ($101,529,884)**

* **The net fiscal impact to the General Revenue Fund does not reflect the potential unknown savings resulting from the changes made to the Historic Preservation Tax Credit Program or the potential unknown loss from the sales tax exemption (144.059) and the potential unknown loss from the expansion of the Business Facility program (135.155)**

** **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.**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS

FUND AFFECTED	FY 2010	FY 2011	FY 2012
Missouri Job Development	$0	$0	$0
School District Trust	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
Conservation	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
Parks and Soils	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
Total Estimated Net Effect on Other State Funds**	**$0 to (Unknown)**	**$0 to (Unknown)**	**$0 to (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 24 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	11 FTE	6 FTE	6 FTE
Total Estimated Net Effect on FTE	**11**	**6**	**6**

☒ 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 to (Unknown)**	**$0 to (Unknown)**	**$0 to (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 **Office of Administration - Budget and Planning (BAP)** state the bill has the following provisions;

- 100.850: This section increases the cap on the BUILD tax credit program from $15M to $20M. Therefore, this could reduce general and total state revenues by $5.0M.

- 135.567: This section creates the Secondary Mining Use Tax Credit Program. The total amount of tax credits available under the program is $1.0M per fiscal year. Therefore, this could reduce general and total state revenues by that amount.

- 135.568: This section creates the Business Relocation for Secondary Mining Use Tax Credit Program. The total amount of tax credits available under the program is $100,000 per fiscal year. Therefore, this could reduce general and total state revenues by that amount.

- 135.569: This section creates the Abandoned Mine Safety Tax Credit Program. The total amount of tax credits available under the program is $500,000 per fiscal year. Therefore, this could reduce general and total state revenues by that amount.

- 135.680 RSMo: This section increases the cap on the New Markets Tax Credit Program from $15M to $25.0M. This program may stimulate other economic activity, but BAP does not have data to estimate the induced revenues. DED may have such an estimate. Therefore, this could reduce general and total state revenues by $10.0M.

- 135.1255 RSMo: This section provides a tax credit equal to $1,000 per taxpayer for the purchase of a home. The total amount of tax credits available under the program is $4.0M. Therefore, this could reduce general and total state revenues by that amount.

- 144.059 RSMo: The section exempts from state and local sales and use tax on certain utilities and equipment for qualified business facilities (NAICS 518210 and 519130). Therefore this program could lower general and total sales tax by an unknown amount.

ASSUMPTION (continued)

- 348.274 RSMo: This section proposes a tax credit for investors making equity investments in qualified technology-based early stage Missouri companies. The tax credit is equal to 30% of the investor's equity investment or 40% of their investment if the business is located in a rural or distressed community. The total amount of tax credits available for this program is $5.0M per year. This could therefore reduce general and total state tax revenues by that amount.

- 620.472 RSMo: This section expands the new or expanding industry training program. The program is currently funded through appropriations made by the general assembly to the Missouri Job Development fund.

- 620.495 RSMo: This section increases the cap on tax credits issued under the Small Business Incubators Fund program from $500,000 to $1.0M. This could therefore reduce general and total state tax revenues by $0.5M.

- 620.1039 RSMo: This section reauthorizes the tax credit for qualified research expenses. The amount of tax credits available for this program is $3.0M. This could therefore lower general and total state revenues by that amount. The taxpayers who receive tax credits under 620.1041 are not eligible under this program.

- 620.1041 RSMo: This section has an additional tax credit for qualified research expenses; however, the credits under this program are limited to certain companies. The amount of tax credits available is $7.0M. The taxpayers who receive tax credits under 620.1039 are not eligible under this program.

- 620.1881 RSMo: This section eliminates the maximum amount of credits that an individual company can receive in a calendar year under the Missouri Quality Jobs Act. The bill also increases the cap on tax credits issued from $60M to $120M. DED reports that currently there are no projects that have been unable to receive funding due to the annual limit on the program. Also, DED maintains that the economic benefit of the jobs created under the program will offset any additional costs proposed by this bill.

- 620.1892 RSMo: This proposal creates the Small Business and Entrepreneurial Growth tax credit for qualifying small businesses that create new jobs in Missouri. The businesses that increase total payroll by more than 20 percent can retain withholding taxes for one year and two years if they provide more than fifty percent of health insurance premiums for all employees. The total amount of tax credits available under the program is $5.0M. Therefore this could reduce general and total state revenues.

ASSUMPTION (continued)

This proposal 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 Labor and Industrial Relations** assume the proposal will not fiscally impact their agency.

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. The department has no means to arrive at a reasonable estimate of loss in premium tax revenue as a result of 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 by tax credits each year.

Officials from the **Department of Natural Resources (DNR)** state a number of historic preservation tax credit program projects, particularly larger scale projects, often try to use a variety of economic development tools and credits to make a project feasible. The inability to bundle these types of credits together could affect the viability of certain projects.

This proposal could also affect the Brownfields Voluntary Cleanup Program (BVCP) by increasing the number of sites that enroll in the Voluntary Cleanup Program. Approximately 12 sites per year enroll in the Voluntary Cleanup Program and utilize the Brownfields Remediation Tax Credits. Enrollment for the Voluntary Cleanup Program is typically 50 sites per calendar year.

The BVCP is a pay-for-service program, with oversight costs paid by the participant. Therefore, there is no net impact to state tax dollars to provide this service.

Section 144.059 would authorize a state and local sales and use tax exemption on purchases of electricity, gas, propane, water, telecommunications services, other utilities, machinery, and equipment for a person operating a business in a mine that is not used for mining if the mine contains at least five hundred thousand square feet of space for business use.

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 an unknown loss to the Parks and Sales Tax Fund.

Section 253.550 - Under current law, historic preservation tax credits are authorized for 25% of eligible rehabilitation costs. This proposal would reduce the amount of the credit to 20% of the eligible rehabilitation costs.

For purposes of this fiscal note, DNR assumes that the Departments of Economic Development and Revenue would be better able to estimate the net effect to Missouri.

Officials from the **Department of Economic Development (DED)** state their Business and Community Services division anticipates the need for 10 additional FTE as a result of the proposed legislation;

Section 100.760. This section changes the BUILD program by removing language dealing with competition of projects with other states and increases the cap on the program from $15 million to $20 million. The increase in the cap for the BUILD program would result in the need for one additional FTE. This 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. In addition, the increase in the cap of $5 million for the BUILD Program would be a negative impact to total state revenue. However, there would be an offset of unknown positive economic benefits as a result of this increase so the exact amount of the impact cannot be determined.

Section 135.155. This section re-establishes the New BFC Tax Credit Program for facilities defined as "headquarters" and extends the program through 2015. This change results in an unknown impact to total state revenue.

Section 135.567. This section creates the Secondary Mining Use Tax Credit Program. Business and Community Services (BCS) assumes the need for one additional FTE and related costs to administer the program. This 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 cap for this new tax credit is $1 million so there would be a negative impact to total state revenue. However, there would be an offset of unknown positive economic benefits as a result of this increase so the exact amount of the impact cannot be determined.

ASSUMPTION (continued)

Section 135.569. This section creates the Abandoned Mine Safety Tax Credit Program. The Department of Revenue administers this tax credit so the Department of Economic Development assumes no fiscal impact. The cap for this program is $500,000, which would be a negative impact to total state revenue.

Section 135.680. This section increases the cap on the New Markets Tax Credit from $15 million to $25 million and extends the program for 2 years through 2012. The increase in the cap for the New Markets Tax Credit would result in the need for one additional FTE. This 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 increase in the cap of $10 million would be a negative impact to total state revenue. However, there would be an offset of unknown positive economic benefits as a result of this increase so the exact amount of the impact cannot be determined.

Section 135.800. This section adds several tax credit programs under the Tax Credit Accountability Act. These programs are: Enhanced EZ, Quality Jobs, New Markets and Distressed Land Assemblage. DED assumes no fiscal impact.

Section 135.1255. This section creates a tax credit for taxpayers purchasing a new or existing home. The Department of Revenue administers this tax credit so the Department of Economic Development assumes no fiscal impact. The cap for this program is $4 million, which would be a negative impact to total state revenue.

Section 144.059. This section provides tax exemption for underground storage facilities. The Department of Revenue administers this so the Department of Economic Development assumes no fiscal impact. There is unknown impact to total state revenue.

Section 348.273. This section creates the Equity Investment Tax Credit, which will stimulate private investment in qualified Missouri businesses and create additional jobs in these businesses. The creation of this tax credit would result in the need for one additional FTE in Business and Community Services (BCS) to administer the Equity Investment Tax Credit program due to the assumed 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 cap for this new tax credit is $5 million so there would be a negative impact to total state revenue. However, there would be an offset of unknown positive economic benefits as a result of this increase so the exact amount

ASSUMPTION (continued)

of the impact cannot be determined.

Section 620.014. This section adds language to the definition of 'closed record'. The Department of Economic Development assumes no fiscal impact.

Section 620.017. This section requires a summary of jobs created to be reported annually by projects receiving financial assistance from the Department of Economic Development. DED assumes no fiscal impact.

Section 620.472. This section increases the cap on the Small Business Incubator Tax Credit from $500,000 to $1 million. The increase in the cap for this program would result in the need for one additional FTE in Business and Community Services (BCS). This 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. In addition, the increase in the cap of $500,000 for the Small Business Incubator Tax Credit Program would be a negative impact to total state revenue. However, there would be an offset of unknown positive economic benefits as a result of this increase so the exact amount of the impact cannot be determined.

Section 620.1039. This section re-establishes the Qualified Research Expense Tax Credit program as an entitlement program with a $3 million cap. Business and Community Services (BCS) assumes the need for one additional FTE and related costs to administer the program. This 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 cap for this new tax credit is $3 million so there would be a negative impact to total state revenue. However, there would be an offset of unknown positive economic benefits as a result of this increase so the exact amount of the impact cannot be determined.

Section 620.1041. This section creates the Qualified Research Expense Tax Credit for agricultural biotechnology, etc. Business and Community Services (BCS) assumes the need for one additional FTE and related costs to administer the program. This 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 cap for this new tax credit is $7 million so there would be a negative impact to total state revenue. However, there would be an offset of unknown positive economic benefits as a result of this increase so the exact amount of the impact cannot be determined.

ASSUMPTION (continued)

Section 620.1881. This section increases the cap on Missouri Quality Jobs from $60 million to $120 million and extends the program for 2 years through 2012. The increase in the cap for the Missouri Quality Jobs Program would result in the need for two additional FTE in Business and Community Services (BCS). These FTE would be Economic Development Incentive Specialist IIIs 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. In addition, the increase in the cap of $60 million for the Missouri Quality Jobs Program would be a negative impact to total state revenue. However, there would be an offset of unknown positive economic benefits as a result of this increase so the exact amount of the impact cannot be determined.

Section 620.1878. This section makes changes to definitions of the section. The Department of Economic Development assumes no fiscal impact.

Section 620.1892. This section creates the Small Business and Entrepreneurial Growth Act. Business and Community Services (BCS) assumes the need for one additional FTE to administer the program. This 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 cap for this new tax credit is $5 million so there would be a negative impact to total state revenue. However, there would be an offset of unknown positive economic benefits as a result of this increase so the exact amount of the impact cannot be determined.

In summary, DED assumes the cost of these additional 10 FTE to total $651,666 in FY 2010, $699,045 in FY 2011 and $720,017 in FY 2012.

Oversight assumes DED will not require ten additional FTE to implement the changes within this proposal. Oversight assumes DED will not require a FTE to implement the mining tax credit (Section 135.567) as Oversight assumes there will not be a large number of applicants for this program. Oversight also assumes DED will not require an additional FTE for increasing the annual cap on the Small Business Incubator tax credit from $500,000 to $1 million (Section 620.472). Based upon DED’s response to HB 191 from this year, in which the annual cap on Quality Jobs was completely removed (instead of increased from $60 million to $120 million as in this proposal), Oversight will assume DED will not require an additional FTE. DED did not assume needing an additional FTE for removal of the cap and had stated that if a large number of applications are received, additional FTE will be required. These FTE will be requested through the budget process. Therefore, Oversight will assume DED can implement the changes in the

ASSUMPTION (continued)

proposal with six additional FTE; one each for the following sections;

- Section 100.760 - BUILD - increased cap from $15 million to $20 million;
- Section 135.680 - New Markets - increased cap from $15 million to $25 million;
- Section 348.273 - Angel Investors - new program with $5 million cap;
- Section 620.1039 - Research - revived program with $3 million cap;
- Section 620.1041 - Research - new program with $7 million cap;
- Section 620.1892 - Small Bus. & Entre. Growth - new program $5 million cap.

Oversight has also changed DED's estimate for expense in FY 2010. Oversight has changed DED's estimate to reflect 12 months of impact since the proposal contains an emergency clause.

Officials from the **Department of Revenue (DOR)** state their Personal Tax section would require:
Section 620.495: One (1) Revenue Processing Technician I (Range 10, Step L) per 6,000 credits claimed;
Section 135.567: One (1) Revenue Processing Technician I (Range 10, Step L) for every 4,000 claims filed;
Section 135.568: One (1) Revenue Processing Technician I (Range 10, Step L) for every 4,000 claims filed;
Section 135.569: One (1) Revenue Processing Technician I (Range 10, Step L) for every 4,000 claims filed;
Section 135.1255: Two (2) Revenue Processing Technician I (Range 10, Step L) for every 4,000 claims filed; Note: Two FTE are requested for Section 135.1255 as the Department would be responsible for both issuing and redeeming this tax credit and therefore would essentially have to process the tax credits twice.

DOR also assumes their Collections & Tax Assistance section would require:
Section 135.1255:
- One (1) Tax Collection Technician I (Range 10, Step L) for every additional 15,000 contact annually on the delinquent tax line;
- One (1) Tax Collection Technician I (Range 10, Step L) for every additional 24,000 contact annually on the non-delinquent tax line;
- One (1) Revenue Processing Technician I (Range 10, Step L) for every additional 4,800 contact annually in the field offices;

ASSUMPTION (continued)

DOR also assumes their Corporate Tax section would require:
Sections 135.567, 135.568, 135.569:

- One (1) Revenue Processing Technician I (Range 10, Step L) for every 5,200 additional returns verified;
- One (1) Revenue Processing Technician I (Range 10, Step L) for every 2,080 pieces of additional correspondence generated from the three new tax credits;

Note: It is unclear whether Section 348.274.8 would require the Department of Revenue to bill the corporation that took the credit. If it is determined in future versions that the Department of Revenue is responsible for enforcing these provisions, additional FTE may be added to the fiscal impact statement.

Also, due to the Statewide Information Technology Consolidation, DOR 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 Technology (ITSD DOR) estimates that this legislation could be implemented utilizing 3 existing CIT III for 1 month for system modifications to MINITS and 3 existing CIT III for 2 months for system modifications to COINS, Café and E-file. The estimated cost is $53,292.

In summary, DOR assumes the need for eleven (11) FTE to implement the changes in this proposal. The costs of the FTE is assumed to be roughly $450,000 per year.

Oversight assumes there will not be a large volume of applicants that will apply for the tax credits for mining (secondary uses, relocation or safety) or the small business incubator. Therefore, Oversight will assume DOR will be able to administer those programs with existing resources, which was estimated by DOR to require six of the eleven FTE. The other five FTE requested by DOR are to implement the Home Purchase tax credit. This program allows a $1,000 credit for homes purchased between the effective date of this proposal and December 31, 2009. If the amount of the credit exceed the taxpayer’s liability, the taxpayer is allowed a refund for the excess (no need for carryforward provision). Therefore, Oversight assumes this is not an ongoing program, but simply good for one year. The program is ‘for the tax year beginning on or after January 1, 2009', therefore, Oversight will assume the $4 million in tax credits will reduce

ASSUMPTION (continued)

General Revenue in FY 2010 only. With this program, Oversight will assume all $4 million of credits will be utilized and will not range the impact from $0 to the cap.

Oversight assumes there would be many positive fiscal benefits to the state resulting from this proposal; however, Oversight considers these to be indirect fiscal impacts and have not reflected them on the fiscal note.

Oversight assumes the changes to the BUILD program (Section 100.760) could increase its utilization and therefore increase the amount of tax credits issued. Over the previous four fiscal years, the amount of tax credits issued under this program has averaged $7.3 million. Therefore, an average of $7.7 million of BUILD tax credits has remained beneath the $15 million annual cap. Now the cap has been increased to $20 million per year.

The amount of issuance and redemptions for the BUILD program for the previous four years has been;

Fiscal Year	Issuances	Redemptions
FY 2008	$7,489,456	$4,975,510
FY 2007	$7,032,080	$6,859,745
FY 2006	$6,247,701	$5,402,416
FY 2005	$8,419,707	$3,770,557

Oversight assumes the changes to the Business Facility program (Section 135.155) could also increase its utilization and therefore increase the amount of tax credits issued. Over the previous three fiscal years, the amount of tax credits issued under this program has averaged $5.4 million. This program has no annual cap, therefore, the changes in the proposal could increase the utilization of the program by an unknown amount.

The amount of issuance and redemptions for the Business Facility program for the previous three years has been;

Fiscal Year	Issuances	Redemptions
FY 2008	$4,293,773	$2,815,251
FY 2007	$3,361,941	$6,066,136
FY 2006	$8,682,799	$5,892,727

This proposal may decrease Total State Revenues.

FISCAL IMPACT - State Government	FY 2010	FY 2011	FY 2012
GENERAL REVENUE			
Savings - reduction of percentage of expenses that would qualify for Historic Preservation tax credits - from 25% to 20% (253.550)	Unknown	Unknown	Unknown
Costs - DED			
Personal Service (6 FTE)	($257,780)	($265,514)	($273,479)
Fringe Benefits	($125,358)	($129,119)	($132,993)
Expense and Equipment	($62,526)	($22,730)	($23,412)
ITSD expense	($10,218)	$0	$0
Total Costs - DED	($455,882)	($417,363)	($429,884)
FTE Change - DED	6 FTE	6 FTE	6 FTE
Costs - DOR			
Personal Service (5 FTE for FY 2010)	($130,707)	$0	$0
Fringe Benefits	($63,563)	$0	$0
Expense and Equipment	($31,177)	$0	$0
Total Costs - DOR	($225,447)	$0	$0
FTE Change - DOR	5 FTE	0 FTE	0 FTE
Loss - BUILD program - increases the annual limit from $15 million to $20 million (100.850)	$0 to ($5,000,000)	$0 to ($5,000,000)	$0 to ($5,000,000)
Loss - New and Expanded Business Facility Credit expansion (135.155)	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
Loss - tax credit for secondary mining uses - (135.567)	$0 to ($1,000,000)	$0 to ($1,000,000)	$0 to ($1,000,000)
Loss - tax credit for business relocation for secondary mine use (135.568)	$0 to ($100,000)	$0 to ($100,000)	$0 to ($100,000)

FISCAL IMPACT - State Government (continued)	FY 2010	FY 2011	FY 2012
Loss - tax credit for abandoned mine safety measures implementation (135.569)	$0 to ($500,000)	$0 to ($500,000)	$0 to ($500,000)
Loss - tax credits from New Markets Tax Credit program - increased annual cap from $15 million to $25 million	$0	$0	$0 to ($10,000,000)
Loss - tax credit for purchase of new or existing residential properties (135.1255)	($4,000,000)	$0	$0
Loss - Sales tax exemption for items consumed in an underground mine (144.059)	(Unknown)	(Unknown)	(Unknown)
Loss - Tax Credit for equity investments in technology-based early stage Missouri companies (Section 348.274)	$0 to ($5,000,000)	$0 to ($5,000,000)	$0 to ($5,000,000)
Loss - Transfer Out - to the Missouri Job Development Fund for increase in job training services from expanded guidelines (620.472)	($1,000,000)	($2,500,000)	($4,000,000)
Loss - Increase in the Small Business Incubators Tax Credit Program from $500,000 to $1,000,000 annually (620.495)	$0 to ($500,000)	$0 to ($500,000)	$0 to ($500,000)
Loss - Research Tax Credit - currently no additional credits can be issued - bill reopens programs with $3 million annual cap (620.1039)	$0 to ($3,000,000)	$0 to ($3,000,000)	$0 to ($3,000,000)

FISCAL IMPACT - State Government (continued)	FY 2010	FY 2011	FY 2012
Loss - Qualified Research Expense tax credit - for tax credits on or after January 1, 2009 , $7 million annual cap (620.1041)	$0 to ($7,000,000)	$0 to ($7,000,000)	$0 to ($7,000,000)
Loss - Quality Jobs program - increased annual cap from $60 million to $120 million (620.1881)	$0 to ($60,000,000)	$0 to ($60,000,000)	$0 to ($60,000,000)
Loss - Small Business and Entrepreneurial Growth Act - has $5 million annual limit (620.1892)	$0 to ($5,000,000)	$0 to ($5,000,000)	$0 to ($5,000,000)
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	**($4,681,329) to ($88,781,329)**	**($417,363) to ($90,017,363)**	**($429,884) to ($101,529,884)**
Estimated Net FTE Change for General Revenue	11 FTE	6 FTE	6 FTE

Note 1: **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.**

Note 2: **The net fiscal impact to the General Revenue Fund does not reflect the potential unknown savings resulting from the changes made to the Historic Preservation Tax Credit Program or the potential unknown loss from the sales tax exemption (144.059) and the potential unknown loss from the expansion of the Business Facility program (135.155)**

FISCAL IMPACT - State Government (continued)	FY 2010	FY 2011	FY 2012
MISSOURI JOB DEVELOPMENT FUND			
Transfer In - from General Revenue (620.472)	$1,000,000	$2,500,000	$4,000,000
Expense - Department of Economic Development - expanded industry training programs (620.472)	($1,000,000)	($2,500,000)	($4,000,000)
ESTIMATED NET EFFECT TO THE MISSOURI JOB DEVELOPMENT FUND	**$0**	**$0**	**$0**
SCHOOL DISTRICT TRUST FUND			
Loss - sales tax exemption for items used by business facility that commences operations in an underground mine (144.059)	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND	**$0 to (Unknown)**	**$0 to (Unknown)**	**$0 to (Unknown)**

FISCAL IMPACT - State Government (continued)	FY 2010	FY 2011	FY 2012
CONSERVATION COMMISSION FUND			
Loss - sales tax exemption for items used by business facility that commences operations in an underground mine (144.059)	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND	**$0 to (Unknown)**	**$0 to (Unknown)**	**$0 to (Unknown)**
PARKS, AND SOIL AND WATER FUNDS			
Loss - sales tax exemption for items used by business facility that commences operations in an underground mine (144.059)	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
ESTIMATED NET EFFECT ON PARKS, AND SOIL AND WATER FUNDS	**$0 to (Unknown)**	**$0 to (Unknown)**	**$0 to (Unknown)**

FISCAL IMPACT - Local Government	FY 2010	FY 2011	FY 2012
LOCAL POLITICAL SUBDIVISIONS			
Loss - sales tax exemption for items used by business facility that commences operations in an underground mine (144.059)	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
ESTIMATED NET EFFECT TO LOCAL POLITICAL SUBDIVISIONS	**$0 to (UNKNOWN)**	**$0 to (UNKNOWN)**	**$0 to (UNKNOWN)**

FISCAL IMPACT - Small Business

Small businesses that qualify for any of the numerous programs within this proposal could be fiscally impacted by this proposal.

FISCAL DESCRIPTION

The act removes the requirement that applicants for the BUILD program consider locating within another state and state the disparity in costs exist between such state and Missouri and increases the annual tax credit cap from fifteen million to twenty million dollars. The act allows an existing headquarters to receive tax credits for new or expanded business facilities for expansions done before January 1, 2015. At least twenty-five new employees and at least one million dollars in new investment must be attributed to such expansion. Buildings on multiple, non-contiguous property will be considered one facility if the buildings are within the same municipality.

Under current law, the Department of Economic Development is required to limit the monetary amount of qualified equity investments to a level necessary to limit tax credit utilization to no more than fifteen million dollars annually. Following fiscal year 2010, no equity investments may be made unless reauthorization is provided by enactment of a general law by the General Assembly.

This act would require the department to limit the monetary amount of qualified equity investments to a level necessary to limit tax credit utilization to no more than twenty-five million dollars annually. The department is required to deny any application received for certain other

FISCAL DESCRIPTION (continued)

economic development incentives which, in addition to the benefits received under the new markets program by the entity, either directly or indirectly, would exceed the projected state benefit. The requirement for reauthorization by enactment of a general law by the General Assembly is moved back two fiscal years to fiscal years following fiscal year 2012.

The secondary mining use tax credit program is created to provide a tax credit for taxpayers, including not-for-profit insurance companies, that incur expenses for the utilization of an existing mine for secondary uses equal to the lesser of hundred percent of such costs or one hundred thousand dollars. The tax credit is fully transferrable, and non-refundable, but may be carried forward five years. The tax credit has an annual aggregate state-wide cap of one million dollars.

The Business Relocation for Secondary Mining Use Tax Credit program is created to provide a tax credit to taxpayers, including not-for-profit insurance companies, that incur expenses in relocating to an existing mine for use of the mine other than mining equal to the lesser of fifty percent of such costs or ten thousand dollars. The tax credit is fully transferrable, and non-refundable, but may be carried forward five years. The tax credit has an annual aggregate state-wide cap of one hundred thousand dollars.

The Abandoned Mine Safety Tax Credit Program is created to provide a tax credit, to taxpayers, including not-for-profit insurance companies, that incur expenses in implementing safety measures or devices in abandoned mines, equal to the lesser of fifty percent of such expenses or fifty thousand dollars. The tax credit is fully transferrable, and non-refundable, but may be carried forward five years. The tax credit has an annual aggregate state-wide cap of five hundred thousand dollars.

The act creates a one thousand dollar refundable state income tax credit for taxpayers who purchase a new or existing home between the effective date of the act and the end of this year. The tax credit program is capped at four million dollars and expires December 31, 2010. The act creates a state and local sales and use tax exemption for utilities, machinery and equipment used or consumed by certain businesses, which after the effective date of the act, commence operations in a facility located in an underground mine which contains at least five hundred thousand square feet of space which could be used by such business. The exemption will expire for taxpayers twenty years from the date the taxpayer is approved for the exemption. The sales tax exemption created by this act and benefits available under the Missouri Quality Jobs Act are mutually exclusive of one another such that any business which receives a tax benefit under one is ineligible for receipt of the other.

FISCAL DESCRIPTION (continued)

Under current law, historic preservation tax credits are authorized for twenty-five percent of eligible rehabilitation costs. This act reduces the amount of the credit to twenty percent of the eligible rehabilitation costs. Tax credit recipients and the Department of Economic Development are required to report job creation resulting from tax credit utilization.

The Department of Economic Development is allowed to authorize up to $5 million 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 located 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. Tax credits for equity investment in technology-based early stage Missouri companies may be carried forward for up to three years or transferred.

Records pertaining to a business project with which the Department of Economic Development, the Economic Development Export Finance Board, or a regional planning commission may be deemed closed records. The Department of Economic Development is allowed to include pre-employment training in its new or expanding industry training. The act specifies what services may be provided including development of training plans, the provision of training through qualified training staff, fees for training professionals, and transportation expenses if the training can be more effectively provided outside the community where the jobs will be located.

The aggregate cap on small business incubator tax credit authorization is increased from five hundred thousand dollars to one million per tax year. The act modifies provisions of law which authorize a tax credit for qualified research expenses. The tax credit will be equal to ten percent of qualified research expenses incurred during the taxable year unless such expenses were incurred in a distressed community, in which case the credit will be equal to twenty-five percent of such expenses. Eligibility for receipt of the tax credit is limited to taxpayers with less than two hundred twenty-five employees, seventy-five percent of which must be employed within the state. Such taxpayers must be engaged, on a for-profit basis, in the development of medical instruments and devices, medical diagnostics and therapeutics, plant science products, or pharmaceutical or veterinary products with agricultural applications in order to receive the credit. Under current law, no qualified research expense tax credits may be approved, awarded or issued after January 1, 2005. This act removes the prohibition on approval and issuance of tax credits and increases the annual tax credit cap from nine million seven hundred thousand to three million dollars provided that at least two million dollars in tax credits be authorized for qualified

FISCAL DESCRIPTION (continued)

research expenses incurred in distressed communities. No more than five hundred thousand dollars may be allocated annually per taxpayer unless such taxpayer incurred the qualified research expenses in a distressed community in which case such taxpayer may not receive more than one million dollars in tax credits annually.

The act creates a new tax credit for qualified research expenses. The amount of the tax credit will be based upon the increase in a taxpayer's qualified research expenses over average of the three preceding year's expenses. A taxpayer can receive a tax credit equal to: three percent of the amount of increased expenses which do not exceed two million five hundred thousand dollars; five percent of the amount of increased expenses which exceed two million five hundred thousand but do not exceed five million dollars; and seven and one half percent of the amount of increased expenses which exceed five million dollars. The Department of Economic Development is prohibited from issuing more than seven million dollars in qualified research tax credits annually. 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, or manufacturing of power system technology for aerospace, space, defense, or implantable or wearable medical devices are also permitted. The department director may allow a taxpayer to transfer up to forty percent of the tax credits issued, but not yet claimed, between January 1, 2010, and December 31, 2016. The Director of the Department of Economic Development must act between August 1 and August 15th on tax credit applications filed between January 1 and July 1st for claims from the previous year. A formula is provided by which tax credits will be issued if the eligible claims for the credits exceed the annual cap. No one taxpayer can be issued more than thirty percent of the total amount of tax credits authorized in any calendar year. Taxpayers are prohibited from simultaneously receiving benefits under this program and the other qualified research tax credit program contained in the act.

The act specifies that if the department fails to respond within thirty days of a Quality Jobs Program applicant's notice of intent, the notice is deemed a disapproval. Currently, the notice is deemed an approval if the department fails to respond within thirty days. The act specifies how the department must apply certain definitions when a business that has already received an approved notice of intent later files another notice of intent and eliminates the per-company annual cap on technology business projects. Qualified companies which file for, or publically announce intentions to seek, bankruptcy protection in the form of a reorganization will still be able to receive benefits under the quality jobs program provided certain conditions are met. The act also increases the annual limit on tax credit issuance for the Missouri Quality Jobs Act from sixty million dollars to one hundred twenty million dollars.

FISCAL DESCRIPTION (continued)

The Small Business and Entrepreneurial Growth Act is established to provide tax incentives for small business expansion. Beginning January 1, 2010, small business employers will be allowed to retain new employee income tax withholdings for one year, if such employer: employs more than five employees and increases payroll by at least twenty percent due to the creation of new jobs which pay at least eighty-five percent of the county average wage; or employs less than five employees and adds new employees so that the total number of employees is five or greater and such jobs pay at least eighty-five percent of the county average wage. Such employers will be allowed to retain all employee income tax withholding for two years if, in addition to the job creation and pay requirements, such employer offers health insurance and pays more than fifty percent of such premiums for all employees. No more than five million dollars in benefits will be available annually under the small business and entrepreneurial growth act.

The act contains an emergency clause.

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 the Secretary of State
Office of Administration - Budget and Planning
Department of Revenue
Department of Insurance, Financial Institutions and Professional Registration
Department of Natural Resources
Department of Labor and Industrial Relations

Mickey Wilson, CPA
Director
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