COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

# FISCAL NOTE

L.R. No.: 0461-05
Bill No.: HCS for SB 112
Subject: Economic Development; Economic Development Department; Tax Credits
Type: Original
Date: May 8, 2013

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Bill Summary: This proposal modifies provisions relating to taxation.

## FISCAL SUMMARY

| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2014 | FY 2015 | FY 2016 |
| General Revenue | $0 to ($10,000,000) | $0 to ($61,000,000) | $0 to (More than $62,000,000) |
| **Total Estimated Net Effect on General Revenue Fund** | **$0 to ($10,000,000)** | **$0 to ($61,000,000)** | **$0 to (More than $62,000,000)** |

**Note: The fiscal note 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.**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 19 pages.

| ESTIMATED NET EFFECT ON OTHER STATE FUNDS | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2014 | FY 2015 | FY 2016 |
| New Markets Performance Guarantee * | $0 | $0 | $0 |
| Conservation | $0 | $0 | $0 or (More than $100,000) |
| Parks, Soil & Water | $0 | $0 | $0 or (More than $100,000) |
| School District | $0 | $0 | $0 or (More than $100,000) |
| **Total Estimated Net Effect on <u>Other</u> State Funds** | **$0** | **$0** | **$0 or (More than $300,000)** |

* Revenue and expenses net to zero.

| ESTIMATED NET EFFECT ON FEDERAL FUNDS | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2014 | FY 2015 | FY 2016 |
| | | | |
| | | | |
| **Total Estimated Net Effect on <u>All</u> Federal Funds** | **$0** | **$0** | **$0** |

| ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE) | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2014 | FY 2015 | FY 2016 |
| | | | |
| | | | |
| **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 2014 | FY 2015 | FY 2016 |
| **Local Government** | **$0** | **$0** | **$0 or (More than $100,000)** |

## FISCAL ANALYSIS

ASSUMPTION

§135.680 New Markets
In response to a previous version of this proposal, officials at the **Office of Administration - Budget and Planning** (**BAP**) assumed this proposal limits the existing authority for the New Markets Tax Credit Program to FY 2008-FY 2010. Since FY 2011, the New Markets Tax Credit program has required annual legislative authorization (via concurrent resolution) in order to allocate benefits under the program. This proposal removes the provision calling for annual authorization and enacts a sunset date for a modified version of the program, which is six years from the effective date of the act unless reauthorized. The modified version of New Markets Tax Credit Program caps program utilization at $25 million annually. This proposal could therefore lower General and Total State Revenues by that amount. This proposal may encourage other economic activity, but BAP does not have data to estimate induced revenues.

This proposal establishes the New Markets Performance Guarantee Fund to accept and hold refundable deposits paid by qualified community development entities (CDE). These deposits would be returned to the CDE if program requirements are met; however, this would be an increase to Total State Revenue.

In response to a previous version of this proposal, officials at the **Department of Economic Development** (**DED**) assumed this proposal reauthorizes the New Markets Tax Credit program, which maintains the $25 million cap per fiscal year. New language provides for a small fee to be collected from the Community Development Entities to be used to cover the administration of the program. The fee is collected in the New Markets Performance Guarantee Fund and requires an appropriation. The program has a 6-year sunset unless reauthorized by the General Assembly and an automatic 12-year sunset. The proposal also includes an emergency clause under section B.

DED assumes an unknown negative impact over $100,000 offset by an unknown positive impact as a result of economic development generated by the program. BCS is not requesting any new FTE at this time; however, if it is determined an additional FTE is needed the FTE will be requested in the normal budget process.

Officials from the **Department of Insurance, Financial Institutions and Professional Registration** state an unknown reduction of premium tax revenues as a result of the re-authorization of the New Markets tax credit is possible. 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

ASSUMPTION (continued)

Foreign Insurance Fund is later distributed to school districts throughout 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.

In response to a previous version of this proposal, officials at the **Department of Revenue** and the **Office of State Treasurer** each assumed there was no fiscal impact to their agency from this proposal.

**Oversight** assumes the agencies responded to a version of this proposal which had an annual cap of $25 million. The cap as currently written is $15 million.

**Oversight** assumes this proposal could affect Total State Revenues. The proposal has an emergency clause, and therefore the earliest of the issuance of the credits could occur as follows:

| Fiscal Year | Earliest possible Credit Allowance Date | Applicable Percentage Rate |
|---|---|---|
| 2013 (with emergency clause) | Contribution Made - 1st credit year | 0% |
| 2014 | 2nd credit year | 0% |
| 2015 | 3rd credit year | 11% |
| 2016 | 4th credit year | 11% |

**Oversight** assumes the current New Markets Tax Credit is to sunset on September 4, 2013. This proposal creates a new tax credit, similar to the previous credit, that will have a utilization cap of $15 million. Since this proposal has an emergency clause, the first credits could be issued beginning in FY 2015 (see table above), and therefore Oversight will reflect a loss to state revenue for the credits that could be issued in FY 2015 and FY 2016. Oversight will reflect the loss of revenue to the State as $0 (no credits are issued yet) to the $15 million cap.

**Oversight** assumes removing the sunset clause on the current New Market Tax Credit program would have no impact.

ASSUMPTION (continued)

This proposal creates the New Markets Performance Guarantee Fund. **Oversight** is unsure how many qualified community development entities will apply for this tax credit in the future and have to pay the fee. Oversight will range the impact of this fund as $0 (no additional applicants) to Unknown. Oversight also assumes that all money received in the fund will be spent in accordance with this proposal.

§ 67.2050 - Technology Business Facilities

In response to similar legislation filed this year, HB 222, officials from the **Department of Revenue (DOR)** assumed this proposal would specifically exempt transactions involving the lease or rental of any components of a project from local sales tax law. In addition, leasehold interests would not be subject to property tax. Payments in lieu of taxes expected to be made by any lessee of the project would be applied in a specified manner.

The governing body could dispose of property, buildings, or plants to private persons or corporations upon approval by the governing body. A private person or corporation that transfers property to the municipality for a technology business facility project at no charge would retain the right to have the municipality transfer the property back to the person or corporation at no cost. The DOR response did not indicate any fiscal impact to their organization.

**Oversight** did not receive any other responses specifically related to these provisions. Oversight notes that this proposal would allow any municipality in the state - county, city, incorporated town, or village - to develop a technology business facility project, and assumes that any reduction in state revenue from local government sales tax collection charges would be minimal.

**Oversight** further assumes that any impact related to this proposal would be the result of some future action by a municipality and will not include any impact in this fiscal note.

§ 99.1205 Distressed Area Land Assemblage

In response to similar legislation filed this year, SB 379, officials at the **BAP** assumed this proposal modifies the distressed areas land assemblage tax credit in the following ways:

- Adds expenses to the list of qualified acquisition costs.
- Changes the provision allowing acquisition costs to include costs incurred for up to twelve years after the acquisition of a project. The current limit is five years.
- Allows additional projects to be eligible for the tax credit.
- Increases the reimbursement amount for demolition costs from 50 percent to 100 percent.
- Increases the annual cap on the program from $20 million to $30 million.

ASSUMPTION (continued)

- Establishes a new $95 million aggregate cap beginning August 28, 2013.
- Delays the program sunset from August 28, 2013 to August 28, 2019.

There is a $30 million annual cap and a new $95 million aggregate cap for the period of 8/28/13 through 8/28/2019, therefore general and total state revenues could be lowered. This proposal could be subject to the 18(e) calculation. This program may encourage other economic activity, but Budget and Planning does not have data to estimate the induced revenues. The Department of Economic Development may have such an estimate.

In response to similar legislation filed this year, SB 379, officials at the **DED** assumed this proposal revises the Distressed Area Land Assemblage Tax Credit Act under Section 99.1205, which is administered by the DED's Division of Business and Community Services. The proposal revises several program definitions, the process and procedures for issuance of tax credits, and increases the annual cap of tax credits from $20 million to $30 million. The language is revised so that tax credits approved prior to August 28, 2013, would not count against the $95 million aggregate cap. The sunset date is extended from August 28, 2013, to August 28, 2019. The proposal may increase the tax credit issuance for the program; therefore, BCS assumes an unknown negative impact over $100,000 as a result of the proposal.

Officials at the **Department of Insurance, Financial Institutions and Professional Registration** assume it is unknown how many insurance companies will choose to participate in this program and take advantage of the Distressed Area Land Assemblage Tax Credit. 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 the tax credit each year.

**Oversight** states according to the Tax Credit Analysis submitted by the Department of Economic Development regarding this program, the Distressed Areas Land Assemblage tax credit program had the following activity;

ASSUMPTION (continued)

| | FY 2010 | FY 2011 | FY 2012 |
|---|---|---|---|
| Certificates Issued (#) | 3 | 1 | 2 |
| Projects (#) | 1 | 1 | 1 |
| Amount Issued | $20,000,000 | $7,980,875 | $3,269,623 |
| Amount Redeemed | $6,731,635 | $13,534,347 | $7,558,203 |

**Oversight** assumes this tax credit was to sunset on August 28, 2013 (FY 2014). This proposal extends the tax credit; therefore, Oversight will show a loss to state revenue for the credits that could be issued in FY 2015 and FY 2016. This proposal establishes a $30 million annual cap. Oversight will reflect a loss of revenue to the State as $0 to the annual cap.

In response to similar legislation filed this year (HB423), officials at the **Department of Revenue** assumed there was no fiscal impact from the proposal.

§ 144.810 - Data Storage Centers
In response to similar legislation filed this year, HB 222, officials from **BAP** assumed this proposal would not result in additional costs or savings to their organization.

BAP officials noted the proposal would define the following data center projects:

* Expanding facility - $5 million investment within 12 months, and 5 new jobs within 24 months.
* New facility - a new facility that does not replace an existing facility, with investment of $37 million and the creation of 30 new jobs over 36 months.

This proposal would provide a state and local sales tax exemption for electrical energy, gas, water, other utilities, machinery, equipment, computers, and construction materials used in a new data center. The amount of any exemption provided under this subsection could not exceed the projected net fiscal benefit to the state over a period of ten years.

This proposal would also provide a state and local sales tax exemption for electrical energy, gas, water, other utilities, machinery, equipment, computers, and construction materials used by expanding data storage centers, to the extent the amount of new inputs exceed current input levels. The amount of any exemption provided under this subsection could not exceed the projected net fiscal benefit to the state over a period of ten years.

This proposal would not impact current General and Total State Revenues but future revenues may be forgone. BAP officials assume this program could encourage other economic activity, but stated that they do not have data to estimate the induced revenues. BAP officials assume the Department of Economic Development may have such an estimate.

ASSUMPTION (continued)

In response to similar legislation filed this year, HB 222, officials from **DED** assumed this proposal would create state and local sales and use tax exemptions for data storage center facilities. The data storage centers facility projects which seek a tax exemption would be required to submit a project plan to DED, and DED would be responsible for certifying the tax exemption in coordination with the Department of Revenue. Exemptions would be limited to the projected net fiscal benefit to the state over a period of ten years, as determined by DED. The proposed legislation would also require random audits to ensure compliance with the intent the data storage centers indicated in their project plan.

DED is unable to determine the exact impact the proposed legislation would have on Total State Revenue and therefore anticipates an unknown impact.

DED would be responsible for determining eligibility for the exemption approval process and the compliance and auditing functions, and anticipates the need for one additional FTE Economic Development Incentive Specialist III. The new employee would be responsible for reviewing project plan applications to make sure they meet the criteria of the program, and conducting random audits to ensure compliance with the program.

The DED response included one additional FTE; with the applicable benefits and expense and equipment the estimated cost was $60,868 for FY 2012, $66,246 for FY 2015, and $66,965 for FY 2016.

**Oversight** assumes there would be a limited number of entities eligible for this sales and use tax exemption and that DED could absorb the additional workload with existing resources. If this proposal created an unanticipated increase in the DED workload, or if multiple proposals were implemented which created a substantial increase in the DED workload, resources could be requested through the budget process.

In response to similar legislation filed this year, HB 222, officials from **DOR** assumed this proposal would exempt all electrical energy, gas, water and other utilities including telecommunication and internet services used in a new data storage center, all machinery, equipment and computers used in any new or expanding data storage center, and all sales at retail of tangible personal property and materials for constructing any new or expanding data storage center from sales and use tax.

An expanding data center project could also be exempt from sales and use tax with the same criteria as a new data storage center.

ASSUMPTION (continued)

**DOR** would need to make programming changes to various tax systems. DOR officials assume the IT cost to implement this proposal would be $31,594 based on 1,168 hours of programming to change DOR systems.

**Oversight** assumes DOR is provided with core funding to handle a certain amount of computer programming activity each year. Oversight also assumes DOR could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, DOR could request funding through the appropriation process.

**DOR** officials assume that Collections & Tax Assistance (CATA) would require one additional FTE Revenue Processing Technician I ($25,884) per 15,000 additional contacts annually to the registration section, with CARES equipment and agent license, and one additional FTE Revenue Processing Technician I ($25,884) per 4,800 additional contacts annually to the tax assistance offices, with CARES equipment and agent license. In addition, DOR officials assume Sales Tax would require one additional FTE (not specified) to complete amended returns and process the refunds, and one additional FTE Revenue Processing Technician I (Range 10, Step L) for completion of amended returns and processing refunds.

The DOR response included three additional employees, and with the related benefits, equipment and expense the cost estimate totaled $123,042 for FY 2014, $122,613 for FY 215, and $123,903 for FY 2016.

**Oversight** assumes there would be a limited number of entities eligible for this sales and use tax exemption and that DOR could absorb the additional workload with existing resources. If this proposal created a significant unanticipated increase in the DOR workload, or if multiple proposals were implemented, resources could be requested through the budget process.

In response to similar legislation filed this year, HB 222, officials from **St. Louis County** assumed that any loss from this proposal would not be great but stated they can not define their sales tax revenue to this level of detail.

In response to a previous version of HB 222, officials from the **City of Columbia** stated that the city does not have any active data storage projects and could not provide an estimate of the fiscal impact.

In response to similar legislation filed this year, HB 222, officials from the **City of Kansas City** stated they were unable to determine the fiscal impact of this proposal, but revenue growth is assumed to exist through increased economic activity in the city.

ASSUMPTION (continued)

City officials assumed there would be no net losses. While the city would lose sales and/or property tax revenues, depending on the nature of the project, those losses would be offset in their entirety (or exceeded) by increases in other revenues.

In response to a previous version of HB 222, officials from the **Francis Howell School District** and the **Parkway School District** assumed this proposal would result in an unknown reduction in sales tax revenues.

**Oversight** notes that this proposal would require a minimum $37 million investment in a new facility within thirty-six months, or a minimum $5 million investment in an expanding facility within twelve months. The proposed project would require approval by the Department of Economic Development (DED) which would conditionally certify the project to the Department of Revenue (DOR). Upon completion of the project, DED would certify the project eligibility to DOR, and DOR would refund the sales tax paid on the project.

If the proposal became effective August 28, 2013, construction could begin late in FY 2014 and would likely not be completed until late in FY 2015. Refunds would not likely be certified and paid to project owners until FY 2016.

**Oversight** is not aware of any existing or planned projects which could qualify for the program, but if one new facility project was completed in time for a refund to be paid in FY 2016, the sales tax amounts could be computed as follows. For fiscal note purposes, Oversight assumes the entire $37 million investment would qualify for the exemption and has calculated the potential impact below.

| Entity | Sales Tax Rate | Sales Tax |
|---|---:|---:|
| General Revenue Fund | 3% | $1,110,000 |
| Conservation Commission Fund | 1/8% | $46,250 |
| School District Trust Fund | 1% | $370,000 |
| Parks, Soil & Water Funds | 1/10% | $37,000 |
| Local Governments | Average 2.5% | $925,000 |

ASSUMPTION (continued)

**Oversight** will indicate a fiscal impact for the General Revenue Fund for this proposal of $0 (no project qualifies for the exemption) or a revenue reduction of More than $1,000,000 (one or more projects qualify for the exemption) for FY 2016, and a range of $0 or a revenue reduction of More than $100,000 for other state funds which receive sales tax revenues, and for local governments.

§§ 348.273 and 348.274 Angel Incentive Act
In response to similar legislation filed this year, HB 698, officials at **BAP** assumed this part of the proposal creates the Missouri Angel Investment Incentive Act. The total amount of tax credits available for this program is $6 million annually. This proposal could therefore lower General and Total State Revenues by that amount. This program may encourage other economic activity, but BAP does not have data to estimate the induced revenues.

In response to similar legislation filed this year, HB 698, officials at **DED** assumed this part of the proposal creates the Missouri Angel Investment Incentive Act effective January 1, 2014. BCS would be responsible for maintaining compliance annually. DED would require one FTE, an Economic Development Incentive Specialist III ($41,016), to administer the Missouri Angel Investment Incentive Act.

**Oversight** assumes that in response to similar legislation filed last year, HB 1593, DED assumed they could absorb the impact of this part of the proposal with existing resources. Therefore, Oversight assumes that DED would not need the Economic Development Incentive Specialist III.

In response to similar legislation filed this year, HB 698, officials at **DOR** assumed the Personal Tax Division will need one Revenue Processing Technician I ($25,884) per 4,000 tax credits claimed and one Revenue Processing Technician I (425,884) per 2,400 pieces of correspondence. The Corporate Tax Division would need one Revenue Processing Technician I ($25,884) per 4,000 tax credits redeemed.

**Oversight** assumes DOR's Personal Tax Division and Corporate Tax Division could absorb the responsibilities of this tax credit with existing resources. Should DOR experience the number of additional tax credit redemptions to justify another FTE, they could seek that FTE through the appropriation process.

**Oversight** assumes the Angel Investment Incentive Act is to begin on January 1, 2014, and therefore, the credits will not affect the State until the tax filings of FY 2015.

§ 620.1039 Qualified Research
In response to similar legislation filed this year, HB 389, officials at **BAP** assumed this proposal reauthorizes a tax credit for qualified research expenses. The program is authorized to issue up to $10 million dollars annually in tax credits. This proposal could therefore lower General and Total State Revenues by that amount.

ASSUMPTION (continued)

In response to similar legislation filed this year, HB 389, officials at the **DED** assumed this proposal re-establishes the Qualified Research Expense Tax Credit program with a $10 million annual cap effective January 1, 2014, and extends the program through 2020. DED's Division of Business and Community Development is responsible for the administration of the tax credit program, which requires determining eligibility for the tax credit and also for ensuring compliance with the program. DED 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, authorizing and issuing the tax credit awards, and ensuring compliance with the program. The annual calendar year cap for this tax credit is $10 million. DED assumes a $10 million per calendar year negative impact to Total State Revenue, which may be offset by an unknown positive economic benefit as a result of the economic activity generated by the program.

It is unclear how many taxpayers would be eligible for this credit; therefore, **Oversight** assumes DED would be able to absorb the work of this credit with existing FTE. Should the number of applicants reach the number where additional FTE would be needed, DED could request the FTE through the appropriation process.

In response to similar legislation filed this year, HB 389, officials at the **Department of Agriculture** and the **Department of Revenue** each assumed there was no fiscal impact to their organization from this proposal.

Officials from the **Department of Insurance, Financial Institutions and Professional Registration (DIFP)** state an unknown reduction of premium tax revenues as a result of the reauthorization of the tax credit for qualified research is possible. 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 throughout 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.

**Oversight** assumes this proposal originally expired on December 31, 2004. This proposal restarts the tax credit and changes the cap to $10 million annually. Oversight will reflect a loss of revenue to the State as $0 (no additional credits issued) to the annual cap.

ASSUMPTION (continued)

Bill as a whole
Officials from the **Office of the Secretary of State (SOS)** assume many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the Secretary of State's Office for Administrative Rules is less than $2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Officials from the **Joint Committee on Administrative Rules** assume that this proposal would not have a fiscal impact to their organization in excess of existing resources.

**Oversight** assumes the changes in this proposal would have a positive impact on the state. However, Oversight considers this to be indirect impact of the proposal and will not reflect it in the fiscal note.

| FISCAL IMPACT - State Government | FY 2014 | FY 2015 | FY 2016 |
|---|---|---|---|
| **GENERAL REVENUE** | | | |
| Revenue Reduction - extension of the distressed areas land assemblage tax credit § 99.1205 | $0 | $0 to ($30,000,000) | $0 to ($30,000,000) |
| Revenue Reduction - § 135.680 recreation of the New Markets tax credit | $0 | $0 to ($15,000,000) | $0 to ($15,000,000) |
| Revenue Reduction - sales tax exemption § 144.810 | $0 | $0 | $0 or (More than $1,000,000) |
| Revenue Reduction - creation of Angel Investment Incentive Act § 348.273 | $0 | $0 to ($6,000,000) | $0 to ($6,000,000) |
| Revenue Reduction - extension of the qualified research tax credit §620.1039 | $0 to ($10,000,000) | $0 to ($10,000,000) | $0 to ($10,000,000) |
| **ESTIMATED NET EFFECT ON GENERAL REVENUE** | **$0 to ($10,000,000)** | **$0 to ($61,000,000)** | **$0 to (More than $62,000,000)** |

**Note: The fiscal note 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.**

| FISCAL IMPACT - State Government (continued) | FY 2014 | FY 2015 | FY 2016 |
|---|---|---|---|
| **NEW MARKETS PERFORMANCE GUARANTEE FUND** | | | |
| Income - Qualified Community Development Entity fee § 135.680 | $0 or Unknown | $0 or Unknown | $0 or Unknown |
| Cost - Department of Economic Development - administration of the tax credit § 135.680 | $0 or (Unknown) | $0 or (Unknown) | $0 or (Unknown) |
| Cost - Refund of Qualified Community Development fee § 135.680 | $0 or (Unknown) | $0 or (Unknown) | $0 or (Unknown) |
| **ESTIMATED NET EFFECT ON NEW MARKETS PERFORMANCE GUARANTEE FUND** | **$0** | **$0** | **$0** |
| **CONSERVATION COMMISSION FUND** | | | |
| Revenue Reduction- sales tax exemption § 144.810 | $0 | $0 | $0 or (More than $100,000) |
| **ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND** | **$0** | **$0** | **$0 or (More than $100,000)** |
| **PARKS, AND SOIL & WATER FUND** | | | |
| Revenue Reduction- sales tax exemption § 144.810 | $0 | $0 | $0 or (More than $100,000) |
| **ESTIMATED NET EFFECT ON PARKS, AND SOIL & WATER FUND** | **$0** | **$0** | **$0 or (More than $100,000)** |

| FISCAL IMPACT - State Government (continued) | FY 2014 | FY 2015 | FY 2016 |
|---|---|---|---|
| **SCHOOL DISTRICT TRUST FUND** | | | |
| Revenue Reduction- sales tax exemption § 144.810 | $0 | $0 | $0 or (More than $100,000) |
| **ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND** | **$0** | **$0** | **$0 or (More than $100,000)** |

| FISCAL IMPACT - Local Government | FY 2014 | FY 2015 | FY 2016 |
|---|---|---|---|
| **LOCAL GOVERNMENTS** | | | |
| Revenue Reduction - sales tax exemption § 144.810 | $0 | $0 | $0 or (More than $100,000) |
| **ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS** | **$0** | **$0** | **$0 or (More than $100,000)** |

FISCAL IMPACT - Small Business

Small businesses that receive these credits may be impacted by this proposal.

FISCAL DESCRIPTION

Missouri's New Markets program provides a tax credit that can be taken against state income tax, bank tax, insurance premium tax, other financial institutions tax, and express companies tax by investors in funds established by specialized financial institutions called Community Development Entities (CDEs) for projects in Missouri.

Current law prohibits the authorization of investments that would receive tax credits under the New Markets tax credit program after June 30, 2010. Beginning on the effective date of the act, this act allows the Department of Economic Development to again authorize new qualified investments that would qualify for the New Markets tax credit.

This act also modifies certain terms of the New Markets tax credit program for investments made after the effective date of the act. Currently, the credit totals 39% of the amount invested by the taxpayer in the CDE as adjusted by state statute, and is claimed over a seven year period (0% for

FISCAL DESCRIPTION (continued)

the first 2 years, 7% for the 3rd year, and 8% for the next 4 years). Under this act, the tax credit amount will be equal to 58% of the unadjusted amount invested in the CDE and the credits will be claimed over a seven year period (0% for the first 2 years, 11 % for the 3rd and 4th year, and 12% for the next 3 years). Currently, these tax credits are not transferable. This act does not prohibit the transfer of these tax credits, except that the credits are not saleable on the open market.

Current law requires CDEs to invest 85% of the capital into Missouri Qualified Businesses. This act requires that 150% of the capital that the CDE raises be invested in Missouri Qualified Businesses.

The Department of Economic Development is required to give the CDE six months after notice of non-compliance with certain terms of the program before the department recaptures the tax credits.

The act creates the New Markets Performance Guarantee Fund and requires CDEs that seek to have their investments designated as eligible for New Markets tax credits to pay one-half percent of the investment amount as a deposit that will be refunded to the CDE if the CDE invests 85% of the purchase price of the investment in qualified low-income community investments in Missouri within twelve months of the investment.

The act also prohibits CDEs from making certain distributions to their equity holders or making cash payments on long-term debt securities until the investment meets certain requirements and the Department of Economic Development approves the request. If the department denies the request unreasonably, the burden of proof is on the department in any administrative or legal proceeding. Fees from the investment fund are prohibited from being paid to a CDE until after the seventh anniversary of the initial investment.

The act establishes a sunset of six years after the effective date for the version of the New Markets tax credit created by this act.

This proposal also creates the data storage tax credit and Angel Incentive tax credit.

This act contains an emergency clause for Section 135.680.

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

City of Columbia
City of Kansas City
Department of Agriculture
Department of Economic Development
Department of Insurance, Financial Institutions and Professional Registration
Department of Revenue
Francis Howell School District
Joint Committee on Administrative Rules
Office of Administration
    Budget and Planning
Office of the Secretary of State
Office of State Treasurer
Parkway School District
St. Louis County

Ross Strope
Acting Director
May 8, 2013