

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 4848-02  
Bill No.: HCS for SB 665  
Subject: Agriculture; Agriculture, Department of; Tax Credits; Boards, Commissions, Committees, and Councils; Business and Commerce; Fees; Motor Fuel.  
Type: Original  
Date: April 25, 2016

**Bill Summary:** Changes the laws regarding agriculture.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>				
FUND AFFECTED	FY 2017	FY 2018	FY 2019	Fully Implemented (FY2023)
General Revenue	(\$131,071)	\$0 to (\$8,000,000)	\$0 to (\$8,000,000)	\$0 to (\$8,000,000)
<b>Total Estimated Net Effect on General Revenue</b>	<b>(\$131,071)</b>	<b>\$0 to (\$8,000,000)</b>	<b>\$0 to (\$8,000,000)</b>	<b>\$0 to (\$8,000,000)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>				
FUND AFFECTED	FY 2017	FY 2018	FY 2019	Fully Implemented (FY2023)
Petroleum Inspection Fund	Up to \$692,771	Up to \$1,364,759	Up to \$1,344,288	Up to \$2,109,045
<b>Total Estimated Net Effect on Other State Funds</b>	<b>Up to \$692,771</b>	<b>Up to \$1,364,759</b>	<b>Up to \$1,344,288</b>	<b>Up to \$2,109,045</b>

Numbers within parentheses: ( ) indicate costs or losses.

This fiscal note contains 13 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>				
<b>FUND AFFECTED</b>	<b>FY 2017</b>	<b>FY 2018</b>	<b>FY 2019</b>	<b>Fully Implemented (FY2023)</b>
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>				
<b>FUND AFFECTED</b>	<b>FY 2017</b>	<b>FY 2018</b>	<b>FY 2019</b>	<b>Fully Implemented (FY2023)</b>
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>				
<b>FUND AFFECTED</b>	<b>FY 2017</b>	<b>FY 2018</b>	<b>FY 2019</b>	<b>Fully Implemented (FY2023)</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

## FISCAL ANALYSIS

### ASSUMPTION

In response to a similar proposal from this year (HCS for HB 2632), officials at the **Office of Administration's Division of Budget and Planning (BAP)** assume, §§135.679, 135.684, and 135.686, under the current law no more \$3,000,000 in Qualified Beef Tax Credits can be issued per fiscal year. If this proposal causes redemptions to increase under the cap, it could lower total state revenues by roughly \$2,668,738, and could impact the calculation under Article X, Section 18(e).

§348.436 extends the sunset of two existing, General Revenue funded tax credits programs from December 31, 2016, to December 31, 2021. Therefore, this will have no direct impact on Total State Revenues.

BAP notes that redemptions under the New Generation Cooperative Tax Credit have averaged \$3.2 million over the last three years. Similarly, redemptions under the Agricultural Product Utilization Contributor Tax Credit have averaged \$1.4 million. The two tax credits share an aggregate cap of \$6 million per year.

In response to a similar proposal from this year (HCS for HB 2632), officials at the **Department of Revenue (DOR)** assume §135.679 modifies the Qualified Beef Tax Credit Act. Subsection 3 extends the tax credit until December 31, 2021. The provisions of Subsection 3 also split the tax credit amount between sales for qualifying weights under 600 pounds and qualifying weights 600 pounds or more. The legislation limits the tax credits to no more than \$10,000 per year per taxpayer. The legislation caps this section, §135.684 and §135.686 at \$3 million.

§135.686 creates the Meat Processing Facility Investment Tax Credit Act. Beginning January 1, 2017, and ending December 31, 2021, the legislation allows a taxpayer a 25 percent tax credit for meat processing modernization or expansion related to the taxpayer's meat processing facility.

The Department requires form and programming changes at a rate of \$75 per hour for 79.92 hours for a total cost of \$5,994.

ASSUMPTION (continued)

**Oversight** notes this HCS caps the programs at \$2,000,000 per year. Oversight also assumes DOR is provided with core funding to handle a certain amount of computer programming activity each year. Oversight assumes DOR could absorb the programming 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** assumes to implement the provisions of this legislation, the integrated tax system requires additional programming costs of \$131,071.

Personal Tax requires two Revenue Processing Technicians I , one for each new tax credit.

As this is an agricultural credit, it falls under the requirements of Senate Bill 1099. Corporate Tax requires three Revenue Processing Technicians I ; one per 4,000 tax credits redeemed, one per 4,000 tax credits transferred, and one for every 520 Senate Bill 1099 compliance mailings and correspondence.

**Oversight** assumes the duties outlined in this proposal can be handled by current staff. Should DOR see an increase in redemptions to justify additional FTE, they can seek those FTE through the appropriations process.

**DOR** also assumes the provisions of §348.430 to §348.436 are set to expire December 31, 2021.

In response to a similar proposal from this year (HCS for HB 2632), officials at the **Department of Agriculture (MDA)** assumed §135.679 is a revision and extension of the existing Qualified Beef tax credit. Without the extension the program will end. The revisions are designed to make the program more effective and thereby increase participation.

§135.686 establishes the Meat Processing Facility Investment Tax Credit Act which will be administered by the Missouri Agricultural and Small Business Development Authority.

The Qualified Beef Tax Credit has had an average usage of only \$463,525 over the past three fiscal years. If the pending statutory changes resulted in an increase in program participation, the Qualified Beef program could issue up to an additional \$2,536,475 of tax credits. However, the effectiveness of these statutory changes in attracting additional program participation is unknown. Therefore, MDA estimates the total fiscal impact to be unknown; from \$0 to \$2,536,475 if the statutory cap is reached.

ASSUMPTION (continued)

The combined cost of all three tax credits does not increase total potential costs beyond the current \$3 million cap, so there is no additional authorization in this bill over and above the already existing \$3 million annual limit.

It is difficult to determine the extent of the usage of each of the three tax credits going forward.

For example, the Livestock Risk Protection Insurance Program that comprises one of the new tax credits in the legislation has a very low market penetration for beef producers so it is hard to project any significant program participation going forward.

**Oversight** notes the cap for the Qualified Beef Tax Credits and the Meat Processing Facility Investment Tax Credit Act combined is now \$2,000,000 annually.

§261.235 - AgriMissouri Trademark Fee, officials from the **Department of Agriculture (AGR)** assume the proposal would not fiscally impact their agency.

In response to a similar proposal from 2015 (SB 361) AGR stated they do not receive any revenue from the use of the AgriMissouri trademark because there is no way to determine the gross annual sales of products carrying the trademark.

AGR assumed the commission is authorized to establish a new fee structure under this proposal as long as the fees established and collected do not exceed the costs of the program. However, there is no way to determine what fee structure will be established by the commission or the number of businesses that will utilize the trademark and pay the fees once the new fee structure is established. Therefore the additional revenues from this proposal are unknown.

AGR noted AgriMissouri administrative costs are 5.00 FTE and related E&E for a total of \$480,126.

AGR assumed the new fee structure if effective in generating revenues, the revenue generated from the fees could not exceed that level under this proposal.

	<u>AgriMissouri</u>
PS	= \$252,066 (5.00 FTE)
Fringe benefits	= \$111,019
<u>EE</u>	= \$117,041
Total costs	= \$480,126

ASSUMPTION (continued)

**Oversight** notes an AgriMissouri trademark fee is not currently assessed by the AgriMissouri Advisory Commission. The AgriMissouri program currently receives fund appropriations from the Agriculture Protection Fund.

**Oversight** assumes should a fee be established by the AgriMissouri Advisory Commission that does not yield revenues greater than the administration of the program, funds collected or appropriated for AgriMissouri, would be paid from the AgriMissouri Fund.

**Oversight** assumes this proposal will have no direct fiscal impact on the Agriculture Protection Fund and the AgriMissouri Fund since no AgriMissouri trademark fee has been established.

**Oversight** notes that the AgriMissouri Fund (0897) did not have a balance at June 30, 2015, or December 31, 2015.

§414.082 in response to a similar proposal from this year (SB 884), officials at the **Department of Agriculture (AGR)** assumed the proposal would have a positive fiscal impact on their organization by increasing the inspection fee of specific motor fuels allowing the current level of service by this program to be maintained.

AGR noted the revenue estimates assume that, without the inspection fee adjustments allowed by SB 884, current revenues would continue their 1.5 percent average annual decline. The revenue estimates also assume that there will continue to be a one month lag between the fees assessed and the Department of Revenue's actual collection and deposit of revenues into the petroleum inspection fund (e.g. fees assessed in January 2017 are not deposited into the inspection fee fund until February 2017). Note that with the reduction in gasoline and diesel fuel prices, consumption has increased 1.5% for the first 5 months of the fiscal year but over the long term, as more newer, better mileage vehicles enter the market, a 1.5% annual reduction in fuel consumption is anticipated.

AGR estimates a 3.5 cent per 50-gallon barrel inspection fee may be necessary effective 1-1-17 in order to maintain the current level of services provided by the program.

If the adjustment allowed by SB 884 is needed, the revenue estimates would be as follows:

ASSUMPTION (continued)

<b>Current Per Barrel Fees for Inspection of Motor Fuels</b>				
Revenue	Projected FY16	Projected FY17	Projected FY18	Projected FY19
Annual	\$2,344,403.40	\$2,309,237.35	\$2,274,598.79	\$2,240,479.81
Per Month Revenue	\$195,366.95	\$192,436.45	\$189,549.90	\$186,706.65

<b>Per Barrel Fees for Inspection of Motor Fuels from SB 884 - Effective 1/1/17</b>				
Under SB 884	Projected FY16	Projected FY17	Projected FY18	Projected FY19
Annual	Not applicable	\$2,694,110.24	\$3,184,438.30	\$3,136,671.73
Difference	Not applicable	\$384,872.89	\$909,839.52	\$896,191.92

**Oversight** assumes currently, the fee for the inspection of certain motor fuels for the Department of Agriculture is used for expenses to administer the program. The fee cannot be less than 1.5 cents per barrel and cannot exceed 2.5 cents per barrel. The Department of Revenue (DOR) sets the per barrel fee, after receiving an expense report from AGR, for the ensuing calendar year. DOR sets the fee to not yield revenue greater than costs of administering the program.

**Oversight** notes, according to the State Treasurer's Office, the balance of the Petroleum Inspection Fund (0662) as of June 30, 2015 was \$1,396,025.53. Total receipts for FY15 were \$2,353,862.98 and total disbursements were \$1,650,946.16.

Utilizing AGR's estimate of 1.5% reduction in utilization, **Oversight** assumes the following potential impact of the proposal:

ASSUMPTION (continued)

Year	Projected Revenue (current 3.5 cents rate)	Projected Barrels (assuming 1.5% decline)	Maximum Charge per Barrel Allowed in the Proposal	Potential New Revenue Estimates	Projected Possible Additional Revenue
FY 2016	\$2,344,403	93,766,120	.025		
FY 2017	\$2,309,237	92,369,478	.04 (at 1/1/17)	\$3,002,008	\$692,771
FY 2018	\$2,274,599	90,983,936	.04	\$3,639,357	\$1,364,759
FY 2019	\$2,240,480	89,619,177	.04	\$3,584,767	\$1,344,288
FY 2020	\$2,206,872	88,274,889	.04	\$3,530,996	\$1,324,123
FY 2021	\$2,173,769	86,950,766	.04	\$3,478,031	\$1,304,261
FY 2022	\$2,141,163	85,646,505	.05 (at 1/1/2022)	\$3,854,093	\$1,712,930
FY 2023	\$2,109,045	84,361,807	.05	\$4,218,090	\$2,109,045

**Oversight** will range the fiscal impact of this proposal as "Up To" the amounts reflected above. The Department of Revenue has the ability charge a fee up to the new maximums.

**Oversight** will reflect 6 months of potential impact in FY 2017, or \$692,771 (\$1,385,542 x 6/12).

In response to a similar proposal from this year (SB 884), officials at the **Department of Revenue (DOR)** assumed the proposal allowed the rate charged to be adjusted annually, requiring updates to forms, rate notification to approximately 490 licensed suppliers and distributors, and minor programming changes to the motor fuel system.

In FY17, DOR would need to incur a one-time fiscal impact of \$5,994 for 80 hours of consultant contract costs. In addition, an increase of \$272 for mailing costs to send out rate change notifications in FY17. DOR shows a fiscal impact for FY18 and FY19, an increase of \$272 for mailing costs in each fiscal year.

**Oversight** assumes DOR could absorb these costs and will not show an impact from these costs in the fiscal note.



ASSUMPTION (continued)

DOR assumes this proposal allows the rate charged for inspections until December 31, 2016, is two and one-half cent (\$0.025) per barrel. Between January 1, 2017, and December 31, 2021, the rate charged for the inspection of gasoline, blended fuels, kerosene, etc., cannot exceed four cents (\$0.04) per barrel. After January 1, 2022, the legislation sets the maximum fee at five cents (\$0.05) per barrel.

DOR assumes the rate charged in this legislation can be adjusted annually, requiring updates to forms, rate notification to approximately 490 licensed suppliers and distributors, and minor programming changes to the motor fuel tax.

In response to a similar proposal from this year (SB 884), officials at the **Office of Administration - Budget and Planning (BAP)** assumed the proposal would have a negative fiscal impact on their organization because it would affect both total state revenue and 18e Missouri Tax Commission and fee calculations by changing the current statutory limits on petroleum inspection fees. Therefore, BAP defers to the Department of Agriculture for an estimate of its potential impact.

In response to a similar proposal from this year (SB 884), officials at the **State Treasurer's Office** and **Department of Natural Resources** assumed the proposal would not have a fiscal impact on their respective organizations.

Officials at the **Department of Economic Development - Tourism** assume this proposal will not have a fiscal impact on their organization, and defers to Department of Agriculture and Department of Revenue.

Officials at the **State Tax Commission** assume this proposal will not have a fiscal impact on their organization.

In response to a previous version, officials at the **Joint Committee on Administrative Rules** assumed the proposal would not have a fiscal impact on their organization.

In response to a previous version, officials from the **Office of the Secretary of State (SOS)** stated 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 SOS 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, the SOS also recognizes 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 the office can sustain with the core budget. Therefore, the SOS

ASSUMPTION (continued)

reserves 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.

**Oversight** assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process.

**Oversight** notes the Qualified Beef Tax Credit has a sunset date of December 31, 2016. In 2015 the amount of credits issued was \$388,080, in 2014 the amount of credits issued was \$188,955 and in 2013 the amount of credits issued was \$813,542. This proposal also changes the qualifying sale rate from ten cents per pound for all sale weights to ten cents per pound for sale weights under six hundred pounds and twenty-five cents per pound for qualifying sale weights of six hundred pounds or greater. These changes will increase credit issuance.

**Oversight** notes this proposal creates an additional tax credit; the Meat Processing Facility Investment Tax Credit Act (§135.686). The credit is effective January 1, 2017 and, with §135.679 (Qualified Beef Tax Credit Act), have an aggregate cap of \$2 million. The first time these credits can be claimed on a taxpayer's tax return would be FY 2018. Therefore, Oversight will reflect the impact as \$0 (no credits claimed) to the \$2 million annual cap starting in FY'18.

**Oversight** notes §348.436 of this proposal extends the expiration date for the Agricultural Product Utilization Contributor Tax Credit (§348.430) and the New Generation Cooperative Incentive Tax Credit (§348.432) from December 31, 2016 to December 31, 2021. §348.434 states the aggregate amount of tax credits issued for §348.430 and §348.432 shall not exceed \$6 million. The first time these credits can be claimed on a taxpayer's tax return would be FY 2018. Therefore, Oversight will show the impact as \$0 (no credits claimed) to the maximum cap of \$6 million starting in FY 2018.

**Oversight** notes historically the utilization of the Agricultural Product Utilization Contributor Tax Credit and the New Generation Cooperative Incentive Tax Credit is as follows:

	FY 2013	FY 2014	FY 2015
Ag. Product	\$1,062,510	\$1,573,720	\$2,376,168
New Gen.	\$4,937,490	\$4,426,280	\$2,112,545
<b>TOTAL</b>	<b>\$6,000,000</b>	<b>\$6,000,000</b>	<b>\$4,488,713</b>

**Changes to Section 414.082, RSMo could increase Total State Revenues.**

<u>FISCAL IMPACT - State Government</u>	FY 2017 (10 Mo.)	FY 2018	FY 2019	Fully Implemented (FY2023)
<b>GENERAL REVENUE</b>				
<u>Cost - DOR - integrated tax system changes</u>	(\$131,071)	\$0	\$0	\$0
<u>Revenue Reduction - extends expiration date for §348.430 to §348.436 (Ag. Product Utilization and New Generation Cooperative)</u>	\$0	\$0 to (\$6,000,000)	\$0 to (\$6,000,000)	\$0 to (\$6,000,000)
<u>Revenue Reduction - tax credits under §135.679 &amp; §135.686 (Qualified Beef, Livestock Risk Protection, and Meat Processing Facility)</u>	\$0	\$0 to (\$2,000,000)	\$0 to (\$2,000,000)	\$0 to (\$2,000,000)
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE</b>	<b><u>(\$131,071)</u></b>	<b><u>\$0 to (\$8,000,000)</u></b>	<b><u>\$0 to (\$8,000,000)</u></b>	<b><u>\$0 to (\$8,000,000)</u></b>
<b>PETROLEUM INSPECTION FUND</b>				
<u>Revenue - §414.082 - Inspection Fees</u>	Up to <u>\$692,771</u>	Up to <u>\$1,364,759</u>	Up to <u>\$1,344,288</u>	Up to <u>\$2,109,045</u>
<b>ESTIMATED NET EFFECT ON THE PETROLEUM INSPECTION FUND</b>	<b><u>Up to \$692,771</u></b>	<b><u>Up to \$1,364,759</u></b>	<b><u>Up to \$1,344,288</u></b>	<b><u>Up to \$2,109,045</u></b>
<u>FISCAL IMPACT - Local Government</u>	FY 2017 (10 Mo.)	FY 2018	FY 2019	Fully Implemented (FY2023)
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

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

§414.082 Small business suppliers and distributors engaged in the sale of certain motor fuels could be impacted annually by an update of the per barrel fee for the inspection of certain motor fuels from this proposal.

Small agricultural businesses that qualify for the tax credits could be impacted by this proposal.

FISCAL DESCRIPTION

§261.235 The proposed legislation appears to have no direct fiscal impact.

§414.082 Currently, the fee for the inspection of certain motor fuels shall not be less than 1.5 cents per barrel and shall not exceed 2.5 cents per barrel. Under this act, the per barrel fee shall not exceed 4 cents per barrel from 2017 to 2021, and shall not exceed 5 cents per barrel from 2022 and thereafter.

This bill modifies the Qualified Beef Tax Credit Act by modifying the baseline weight to be the average of the previous two years and extending the sunset on the credit from Dec. 31, 2016, to December 31, 2023. Currently, a farmer can receive the tax credit of \$.10 per pound for each pound as long as the sale weight is 200 pounds over the baseline weight. The bill would allow for a credit of \$.10 per pound for each pound as long as the sale weight is 100 pounds over the baseline weight if the sale weight is under 600 pounds and \$.25 per pound for each pound as long as the sale weight is 100 pounds over the baseline weight if the sale weight is 600 pounds or greater. A taxpayer may not claim credit of more than \$10,000 per year and can only claim the credit for up to three years.

This bill also creates Meat Processing Facility Investment Tax Credit Act, which beginning January 1, 2017, and ending December 31, 2023, authorizes a tax credit for 25% of the amount the taxpayer spent for meat processing modernization or expansion for the year. The taxpayer may not claim credit of more than \$75,000 per year. The credit may be assigned, transferred, or sold.

The amount of credit claimed under the Qualified Beef Tax Credit and the Meat Processing Facility Investment Tax Credit may not exceed \$2 million per calendar year.

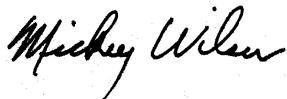
Currently the agricultural product utilization contributor tax credit and the new generation cooperative incentive tax credit expire on December 31, 2016. The bill extends the sunset on these tax credits to December 31, 2021.

FISCAL DESCRIPTION (continued)

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 Agriculture  
Department of Economic Development - Tourism  
Office of Secretary of State  
Joint Committee on Administrative Rules  
State Tax Commission  
State Treasurer's Office  
Department of Natural Resources  
Office of Administration - Budget and Planning  
Department of Revenue



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