

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5599-01
Bill No.: SB 885
Subject: Agriculture Department; Appropriations; Capital Improvements; Economic Development; Economic Development Department; Revenue Department; Tax Credits
Type: Original
Date: February 8, 2016

Bill Summary: This proposal creates the Show Me Rural Jobs Act.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
General Revenue	(\$68,855)	\$0	(Up to \$20,000,000)
Total Estimated Net Effect on General Revenue	(\$68,855)	\$0	(Up to \$20,000,000)

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.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Show Me Rural Jobs*	\$0	\$0	\$0
Total Estimated Net Effect on Other State Funds	\$0	\$0	\$0

*Transfers In and Costs net to zero.

Numbers within parentheses: () indicate costs or losses. This fiscal note contains 10 pages.

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

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Show Me Rural Jobs	1 FTE	1 FTE	1 FTE
Total Estimated Net Effect on FTE	1 FTE	1 FTE	1 FTE

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

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Department of Agriculture (MDA)** assume beginning October 1, 2016, MDA shall accept applications for approved investment companies.

MDA shall make an application determination within thirty days of receipt in the order in which applications are received. If requests for growth capital exceed the statutorily authorized limit, the department shall proportionally reduce the growth capital and the credit eligible capital contributions for each approved application as necessary to meet the limitation.

MDA shall approve or deny applications submitted according to the criteria specified in the bill, and shall provide written notice to applicants and to Department of Economic Development following the specifications of the bill.

MDA shall monitor, track, and ensure compliance with all aspects of the legislation specified in the bill.

MDA will need one FTE Loan Officer (at \$42,000 per year) and associated equipment and expenses to perform the assigned duties.

Since it's difficult to estimate both the number of companies applying for this program and the pace of applications over several fiscal years, this analysis does not estimate revenues to, or expenditures from, the Missouri Rural Jobs Fund established in this bill. Instead, this estimate assumes General Revenue will be needed to ensure implementation.

In summary, MDA assumes costs of \$65,000 in FY 17 and approximately \$73,000 per year after that.

Officials at the **Department of Economic Development (DED)** assume this proposed legislation amends chapter 620 by adding 620.1950-620.1956 to be called the Show Me Rural Jobs Act.

- §620.1951 - definitions
- §620.1952 - creates the Show Me Rural Jobs Fund to hold the money collected under the program. The Treasurer is the custodian of the fund. Money in the fund is appropriated by the legislature and is used to administer the program.
- §620.1953 - Requires the Department of Agriculture to create and manage an application process for approved investment companies.
- §620.1954 - creates a tax credit that DED administers for taxpayers who make a capital contribution to an approved investment company. The taxpayer earns a vested credit

ASSUMPTION (continued)

equal to the amount of the capital contribution. The taxpayer may claim up to 20% of the credit authorized for each of the five tax years occurring after July 1, 2018. The amount of credits claimed in one year by all taxpayers cannot exceed \$20 million.

- §620.1955 - explains when DED can revoke the tax credit
- §620.1956 - requires approved investment companies to submit a report to Agriculture and DED on or before the fifth business day after the second anniversary of the closing date.

This proposed legislation will create a new tax credit for DED to administer with an annual cap of \$20 million. DED will require 1 new FTE beginning in FY17 to develop, implement, and facilitate this program. DED will be issuing credits prior to the tax year the credit takes effect (tax years after July 1, 2018). The recipients must wait until then to redeem them.

Oversight assumes the duties outlined in this proposal can be handled by current staff. Should DED see an increase in tax credit issuances to justify an additional FTE, they can seek that FTE through the appropriation process.

Officials at the **Department of Revenue (DOR)** assume this legislation creates a nonrefundable tax credit for taxpayers who make contributions to an approved investment company and receive a tax credit certificate under §620.1953. The taxpayer cannot sell, transfer, or allocate the tax credit to other entities except affiliates. The taxpayer may claim up to 20 percent of the authorized credit for each of the five tax years occurring after July 1, 2018.

Under certain circumstances, the Department of Economic Development (DED) must revoke a tax credit certificate issued under §620.1953. If DED revokes a tax credit certificate, the DOR must make an assessment for the amount of credit claimed by the holder before DED revoked.

DOR requires forms changes and programming to implement the provisions of this legislation at a cost of \$75 per hour for 335.88 for a total cost of \$25,191. Also, the integrated tax system requires updates at a cost of \$43,664.

Personal Tax requires one (1) Revenue Processing Technician I per 4,000 tax credits redeemed. Corporate Tax requires one (1) Revenue Processing Technician I per 4,000 tax credits redeemed.

DOR and DED must develop procedures in order for DED to notify the DOR if it revokes a company's tax credit.

Oversight assumes the duties outlined in this proposal can be handled by current staff. Should

ASSUMPTION (continued)

DOR see an increase in tax credit redemptions to justify an additional FTE, they can seek that FTE through the appropriation process.

Officials at the **Office of Administration's Division of Budget and Planning (BAP)** assume the proposed legislation would create the "Show-Me Rural Jobs Fund" which would consist of receipts from a \$5,000 nonrefundable application fee submitted by investment companies applying for growth capital and credit-eligible capital contributions through the Department of Agriculture, as well as \$5,000-per-day penalties charged against approved investment companies for violations. Applications can be accepted beginning Oct.1, 2016, which could impact FY 17 revenues. However, there is not enough available data for BAP to estimate the potential revenues to this new fund.

The proposal would also create a new tax credit program to be administered by the Departments of Agriculture and Economic Development for taxpayers who make a capital contribution to an approved investment company. The taxpayer could claim up to 20% of the credit authorized for each taxable year beginning after July 1, 2018; therefore, General and Total State Revenues may be reduced as early as FY 2019. There is a \$20,000,000 cap on the credits.

Officials at the **Department of Insurance, Financial Institutions and Professional Registration (DIFP)** assume an unknown reduction of premium tax revenues as a result of the creation of the Show Me Rural Jobs Act 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 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.

DIFP also assumes computer programming costs at \$75 an hour for 56.16 hours for a total cost of \$4,212.

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

Officials at the **Office of the State Treasurer** and the **Joint Committee on Administrative Rules** each assume no fiscal impact from this proposal to their respective organizations.

ASSUMPTION (continued)

Officials from the **Office of the Secretary of State (SOS)** state 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 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 assumes that qualified recipients cannot redeem the credit until July 1, 2018. Therefore, they will not be able to claim this credit on their taxes until FY 2019. Oversight will show \$0 in FY 17 and 18 and the \$20,000,000 cap in FY 2019.

Oversight assumes there is a \$5,000 application fee submitted by qualified companies that is deposited into the Show Me Rural Jobs fund. We are unable to calculate the number of companies that may apply for this tax credit, therefore, Oversight will show the income into the Show Me Rural Jobs fund as Unknown.

Oversight assumes the income into the Show Me Rural Jobs fund will be used for the administration of the fund. Oversight assumes the income and costs to this fund will net to zero and will show the net fiscal impact to this fund as zero.

<u>FISCAL IMPACT - Local Government</u>	FY 2017 (10 Mo.)	FY 2018	FY 2019
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

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

FISCAL DESCRIPTION

This act creates the Show Me Rural Jobs Act. Under the act, the Department of Agriculture will accept and review applications for approved investment companies that invest in rural business concerns. Applications will include the amount of growth capital the applicant is seeking and a fee. The act requires growth capital to be comprised of 60% or less credit-eligible capital contribution and 40% or more cash investments. The act lists other information that must be included such as evidence that the applicant meets certain criteria and information on the potential benefit to the state. For the credit-eligible capital contributions, each investor must submit an affidavit stating a commitment to make the contribution and the amount.

The Department of Agriculture will approve up to \$166,666,667 in growth capital and up to \$100,000,000 in credit-eligible capital contributions. The Department of Agriculture can deny an application only for certain enumerated reasons and an applicant has a chance to provide additional information to cure any defect in the application that led to denial. Upon approval, the Department of Agriculture will provide written notice to the applicant with the amount of growth capital and a tax credit certificate for each investor whose affidavit was attached.

Within 60 days of notice of approval, the approved investment company shall collect the credit-eligible capital contributions from the investors who signed affidavits and one or more cash investments that will compose the remaining amount of growth capital. Within 65 days, the approved investment company shall provide the Department of Economic Development with documentation that the amounts have been collected. If the company fails to comply, the Department of Economic Development shall award lapsed growth capital to each approved investment company that received less than it requested. Any remaining capital may be awarded to newly approved companies.

The act creates a non-refundable tax credit for taxpayers making a credit-eligible capital contribution to an investment company. This credit cannot be sold, transferred, or allocated to any other company except an affiliate. The taxpayer may claim up to 20% of the credit for each

FISCAL DESCRIPTION (continued)

year after July 1, 2018. If the amount of the credit exceeds the taxpayer's liability for that year, the excess shall be carried forward and claimed during the next five years. The maximum amount of credits claimed by all taxpayers cannot exceed \$20,000,000 - not including amounts carried forward from previous years.

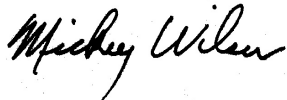
The Department of Economic Development shall revoke tax credit certificates issued under this act in several situations depending on the approved investment company's actions. The Department of Economic Development must provide notice to the approved investment company before revoking the tax credit certificates and the company has 90 days to correct any violations to avoid revocation. If the tax credit certificates are revoked, they no longer count toward the limits above and may be reallocated. After 5 years an approved investment company may leave the program. If state and local tax revenues fall short of the amount anticipated in the application, the state may recover a percentage of the distributions.

Each approved investment company must submit a report to the Departments of Agriculture and Economic Development roughly 2 years after it collects the total growth investment. This report must contain specific information. After that, the approved investment company must submit an annual report each April.

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 State Treasurer
Department of Agriculture
Department of Revenue
Office of Administration's Division of Budget and Planning
Department of Insurance, Financial Institutions, and Professional Registration
Office of the Secretary of State
Joint Committee on Administrative Rules



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