COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. NO.: 3428-07
BILL NO.: HCS for SCS for SB 801
SUBJECT: Revenue Department; Taxation and Revenue - Sales; Business and Commerce.
TYPE: Original
DATE: April 17, 2000

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
General Revenue	($1,700,000)	$4,300,000	$4,300,000
Total Estimated Net Effect on All State Funds	**($1,700,000)**	**$4,300,000**	**$4,300,000**

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
Local Government	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses
This fiscal note contains 7 pages.

FISCAL ANALYSIS

ASSUMPTION

Section 260.285 defining Cotton Linters.

Officials of the **Department of Revenue (DOR)** stated this part of the proposal redefines an existing sales tax credit for certain food processors. They assume it will have no administrative impact on the DOR and believe the loss of revenue to the state would be very minimal to non-existent.

The **Department of Natural Resources (DNR)** stated this part of the proposal does not change the department's authority, therefore, DNR will not be impacted.

Officials from the **Office of Administration - Budget and Planning** stated this proposal would have no impact on their agency and have no basis for estimating its fiscal impact on the state. The OA deferred to the fiscal impact estimate of the Department of Revenue.

Section 100.286 Missouri Development Finance Board.

The **Department of Economic Development (DED)** assumes this part of the proposal deletes the tax credits for contributions to the development and reserve fund and export finance fund. The impact is cost neutral according to the DED.

Section 135.400 Community Bank Tax Credit.

The DED assumes this part of the proposal changes the definition of a Community development corporation and would have no fiscal impact.

Section 135.403 Community Bank Tax Credit.

The DED states the program is changed by removing the targeting of the program to give it increased flexibility. Five hundred thousand annually is allocated from the existing tax credit in Chapter 32, RSMo to the Community Bank Tax Credit Program. The DED assumes the fiscal impact is zero.

Section 135.406 Small Business Tax Credit.

The DED states this part of the proposal dedicates $2.5 million of the credit to Pharmaceutical research and development. This will have no fiscal impact as currently written as this dedication

ASSUMPTION (continued)

is from an existing program whose cap will have been met by the time this proposal would become law.

Section 135.430 - Department of Social Services defining target areas.

The **Department of Social Services** assumes this proposal would have no fiscal impact to their agency.

Section 135.766 - Small Business Administration Guarantee Fee Tax Credit.

The DED assumes this change repeals the credit. This credit has no cap and was just enacted last year. The revenue impact is projected at a positive $4 million per year.

Section 178.892 - Community College New Jobs Training Program.

The DED assumes this part of the proposal allows health firms and professional services firms to qualify for the program. This should be a revenue neutral proposal.

Section 208.750 - Family Development Account Program.

The DED states this is a technical change to the program to allow all not-for-profits to be eligible to participate. Prior to this proposed change, organizations formed under chapter 352 RSMo qualified. This change should be cost neutral.

Section 447.708 - Brownfields Program.

Officials from the DED assumes the proposal allows DED to use the tax credits offered through this program for demolition that is not part of the voluntary remediation activities, as long as the demolition is part of a redevelopment plan approved by the local government entity and the DED. This program is discretionary so the change does not have a fiscal impact.

Officials from the **Department of Natural Resources (DNR)** state the proposed legislation would allow for demolition tax credits for up to one hundred percent of the costs of demolition that are not part of the voluntary remediation activities. The proposed legislation requires the department to approve any tax credits authorized by this provision.

Before the department approves the demolition tax credit, the participant will have to demonstrate to the department that hazardous substances are not contained within or beneath the

ASSUMPTION (continued)

structure. This demonstration could be made in the documents we review during our preliminary review, if the documents are comprehensive enough. However, if the initially reviewed documents are not comprehensive and leave some doubt as to whether hazardous substances are within or beneath the structure, then the department would ask that additional investigations be conducted.

The department estimates 25 to 30 sites per year. The department also estimates the review time to approve the tax credit, as illustrated above, is apt to vary depending on the adequacy of the data submitted. If only a preliminary review is necessary, the review time would be approximately 6 hours. If review beyond the preliminary review is needed, the review time could increase to approximately 16 hours. The department does not anticipate being significantly impacted by these provisions. However, if the number of sites exceeds our expectations, we may need to request additional resources.

The department has the authority to cost recover any cost associated with reviewing the demolition tax credit. The associated cost for a six hour review is approximately $400 (ES III salary $3308 x 12 months/2080 annual hours=$19.08 x 3.5 multiplier=$66.78 hrly rate x 6 hours). The associated cost for a 16 hour review is approximately $1,068 (ES III salary $3308 x 12 months /2080 annual hours=$19.08 x 3.5 multiplier=$66.78 hrly rate x 16 hours). The amount of increased revenues depends on the number of demolition tax credits the department reviews and the amount of time to review each. Since the department does not know the number of applications that would be submitted or the amount of time it would take to review, the amount of increased revenues would be unknown.

Section 620.470 & 620.474 Customized Training Program.

The DED assumes this change proposes to allow for training through business consortiums as well as makes other technical changes to open the program to more industries. The DED assumes the fiscal impact is projected to be a neutral.

Section 620.1039 Research and Development Tax Credit.

The DED assumes this part of the proposal changes the program from an entitlement program to a discretionary program. It also allows the credits to be transferred and allows a percentage of credits earned but not redeemed in the past few fiscal years to be transferred. It also decreases the annual cap from $10 million to $9.7 million per year. Transferability should increase utilization by small businesses. Fiscal impact is projected at a positive $300,000 per year which will be offset by the transfers of an estimated $6.0 million earned credits in fiscal year 2001 for a

ASSUMPTION (continued)

net impact of a negative $5.7 million and then a positive impact of $300,000 per subsequent years.

FISCAL IMPACT - State Government	FY 2001	FY 2002	FY 2003
GENERAL REVENUE FUND			
Savings - Tax credit for Small Business Administration Guarantee Fee Tax Credit	$4,000,000	$4,000,000	$4,000,000
Savings - Tax credit reduction for Research and Development	$300,000	$300,000	$300,000
Costs - Increased utilization for Research and Development Tax Credit	($6,000,000)	$0	$0
ESTIMATE NET EFFECT ON THE GENERAL REVENUE FUND	**($1,700,000)**	**$4,300,000**	**$4,300,000**

FISCAL IMPACT - Local Government	FY 2001	FY 2002	FY 2003
	$0	$0	$0

FISCAL IMPACT - Small Business

This proposal would have a direct fiscal impact to small businesses that would use tax credits.

DESCRIPTION

This act makes technical changes in the definition of recyclable cellulose and requires the Department of Natural Resources to certify that the cellulose used to package meats is recycled.

DESCRIPTION (continued)

Section 260.285 of the act has an emergency clause.

The House Committee Substitute also makes numerous changes to business tax credits. The credit currently allowed for contributions to the Missouri Development Finance Board's development and reserve fund and export finance fund is abolished, and the definition of "community development corporation" is liberalized to include more organizations.

Eligibility for certain tax credits is expanded by removing requirements that investments for community development be in certain "targeted areas", and the amount of credit available is reduced from six million to five hundred thousand dollars. The law authorizing the Department of Social Services to define "targeted areas" is repealed.

Two and a half million dollars in small business tax credits are reserved for investment in pharmaceutical research and development. The tax credit currently allowed to small businesses for amounts paid to the U.S. Small Business Administration as guarantee fees for loans is repealed.

"Community-based organization", for purposes of the Family Development Account Program, is redefined to include any not-for-profit approved by the director of economic development. A new demolition tax credit is also authorized, and the definition of "industry", for purposes of state job training programs, is expanded. Procedures for obtaining tax credits under the job training programs statutes are modified, and the amount of tax credits available for research expenses is reduced from ten to nine million, seven hundred thousand dollars.

Numerous technical and corrective changes are also made to business tax credit statutes.

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

Department of Revenue
Department of Natural Resources

SOURCES OF INFORMATION (continued)

Department of Social Services
Department of Agriculture

Jeanne Jarrett, CPA
Director
April 17, 2000