COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. NO.: 3852-01
BILL NO.: SB 867
SUBJECT: Business and Commerce; Economic Development; Economic Development Dept.; Insurance - General; Taxation and Revenue - General.
TYPE: Original
DATE: January 24, 2000

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
General Revenue	($54,811 to $10,054,811)	($57,821 to $10,057,821)	($59,304 to $10,059,304)
Total Estimated Net Effect on All State Funds	**($54,811 to $10,054,811)**	**($57,821 to $10,057,821)**	**($59,304 to $10,059,304)**

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 4 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Economic Development (DED)** state this proposal increases CAPCO credits by $100 million or $10 million per year starting in calendar year 2001 and claimed in fiscal year 2001. Total CAPCO credits with the new and existing programs combined would be $24 million per year, including the current distressed community portion of the existing law. It also allows for an increase of the administrative costs of operating new CAPCO's to 10 percent which is currently 2.5 percent by DED rule, plus other and reasonable and necessary expenses as approved. It also allows CAPCOs to invest in any security or policy issued by an insurance company or an affiliate of an insurance company or any account maintained by an insurance company or an affiliate of an insurance company, up to 5 percent of certified capital, which is currently prohibited by law.

The DED assumes all $100 million in credits will be authorized in calendar year (CY) 2000 and credits of $10 million could be claimed against CY 2000 tax returns in fiscal year 2001. The DED assumes the need for one (1) Economic Development Incentive Specialist II - $36,468 plus associated cost to administer the additional tax credits.

Officials from the **Department of Revenue (DOR)** state this proposal will not fiscally impact the DOR since they do not anticipate a large increase in tax credits and will not request an additional FTE at this time. However, if the tax credit volume does increase, the DOR will need one Tax Processing Tech I for every 2,000 additional income tax credits claimed and one Tax Processing Tech I for every 3,680 additional business tax credits claimed.

Officials from the **Department of Insurance (INS)** state, with this proposal, Certified Capital Company tax credits cannot exceed an amount equal to ten percent of the cumulative credits earned by certified capital companies in previous years, beginning in 2001. Also, they state, the tax credits against state premium tax liability remain capped at $4 million. The INS officials assume premium tax revenues collected may increase as a result of limiting credits taken to 10 percent of the cumulative credits earned in previous years, but will not decrease revenues with additional credits, as the cap remains at $4 million. The Department of Insurance assume this proposal has no fiscal impact on their agency.

Officials from the **Office of Administration** stated this proposal should not result in additional costs or savings to their agency, but there may be impact on total state revenue.

Oversight assumes the Department of Economic Development will not require the additional office space for the 1 FTE that is requested.

This proposal would result in a decrease in Total State Revenues.

FISCAL IMPACT - State Government	FY 2001 (10 Mo.)	FY 2002	FY 2003
GENERAL REVENUE FUND			
Loss - General Revenue Fund			
Additional tax credits on CAPCO	$0 to ($10,000,000)	$0 to ($10,000,000)	$0 to ($10,000,000)
Cost - Department of Economic Development			
Personal service (1 FTE)	($31,137)	($38,314)	($39,272)
Fringe benefits	($9,575)	($11,782)	($12,076)
Expense and equipment	($14,099)	($7,725)	($7,956)
Total Cost - DED	($54,811)	($57,821)	($59,304)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**($54,811 to $10,054,811)**	**($57,821 to $10,057,821)**	**($59,304 to $10,059,304)**

FISCAL IMPACT - Local Government	FY 2001 (10 Mo.)	FY 2002	FY 2003
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

This proposal could have a fiscal impact on certain small businesses, including certified capital companies.

DESCRIPTION

This proposal limits the Certified Capital Companies (CAPCO) operating and organizational expenses for tax purposes to 10% of the value of the CAPCO capital for CAPCOs created after August 28, 2000.

Under current law, businesses qualifying for CAPCO investment are limited in sales to $3 or $4 million annually. This proposal allows CAPCO investment in a business with up to $7.5 million in sales for the first year if such investment is made within four years of establishment of the Certified Capital Company with at least 25% of its certified capital invested in a "Qualified Missouri Stage Development Business".

DESCRIPTION (continued)

A "Qualified Missouri Stage Development Business", authorized in this act, is an emerging industry as designated by the Department of Economic Development, or an industry with less than $2 million in sales in the most recent fiscal year.

Under current law, the Director of the Department of Economic Development could reduce the percentage of the 100% tax credit earned against state premium tax liability for an investment until August 28, 1999. This act allows the Director to reduce credit for investment during the period of August 28, 2000 to August 28, 2005.

This act also removes the $10 million cap on the aggregate amount of CAPCO tax credits allowed in any one year and sets a new cap of 10% of the cumulative amount of credits earned for certified capital invested in previous years. Not more than 5% of the proceeds from the initial certified capital investment may be invested in an insurance company or any of its affiliates.

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 Insurance
Office of Administration

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Director
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