

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. NO.: 4380-01
BILL NO.: SB 958
SUBJECT: Economic Development Department; Revenue Department; Taxation and Revenue - Income.
TYPE: Original
DATE: February 16, 2000

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
General Revenue	(\$1,046,115)	(\$1,000,000)	(\$1,000,000)
Total Estimated Net Effect on <u>All</u> State Funds	(\$1,046,115)	(\$1,000,000)	(\$1,000,000)

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
None			
Total Estimated Net Effect on <u>All</u> 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

In response to a similar proposal from this year, officials from the **Department of Revenue (DOR)** state that this authorizes a tax credit equal to 10% of qualified research expenses, or 25% of the qualified research expenses in a distressed community. The total amount of tax credits cannot exceed \$10 million and at least \$2 million is reserved for expenses incurred in distressed communities. The maximum amount of credit a taxpayer can receive is \$500,000, or \$1,250,000 for qualified expenses in a distressed community. The Department of Economic Development will certify this tax credit to the taxpayer and the Department of Revenue.

The DOR officials assume the number of taxpayers eligible for this credit is unknown at this time. The Division of Taxation will need one temporary tax season employee (a cost of \$6,067) for every 130,000 returns filed with this credit for key entry. In order to process the credits, the Personal Tax Bureau will need one Tax Processing Tech I for every 2,000 credits filed, and the Business Tax Bureau will need one Tax Processing Tech I for every 3,680 credits filed. One Tax Processing Tech I will be needed for every 3,000 pieces of correspondence received regarding the credit.

The DOR also states this proposal will require modifications to the individual income tax system. The DOR estimates these modifications, including programming changes, will require 1,384 hours of contract labor at a cost of \$41,617. Modifications to the income tax return and schedules will be completed with existing resources. State Data Center charges will increase due to the additional storage and fields to be captured, at a cost of \$4,498.

In response to a similar proposal from this year, officials from the **Department of Economic Development (DED)** state this would reduce total state revenue by \$10 million. The impact is projected as being claimed at \$1 million per year although this impact could vary greatly because credits can be carried forward 10 years and back 3 years. Tax credits may be used against Chapter 143, Income Tax; Chapter 147, Franchise Tax; or Chapter 148, Financial Institution Tax. It allows for a tax credit equal to 10% for qualified research expenses and in the case of qualified research expense in a distressed community, the tax credit increases to 25%.

The DED assumes the credits will be used at a rate of \$1 million per year over 10 years. This could vary greatly due to carry back provisions and inability to determine how fast or slow credits would be requested or claimed. The DED assumes the need for one Economic Development Incentive Specialist II (at \$36,468 annually) plus associated expense and equipment to do promotion of the credit, authorization, and taxpayer assistance plus all other administrative duties related to the program.

ASSUMPTION (continued)

In a similar proposal from this year, officials from the **Office of Administration, Budget and Planning** deferred to the fiscal estimates of the Department of Economic Development.

Oversight assumes the DOR could request additional FTE to process the additional credits if the need arises, but for purposes of this fiscal note, the DOR is assumed to only incur programming and data storage costs from this proposal. Oversight also assumes the DED could absorb the program with existing staff.

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

<u>FISCAL IMPACT - State Government</u>	FY 2001 (10 Mo.)	FY 2002	FY 2003
GENERAL REVENUE FUND			
<u>Loss - General Revenue Fund</u>			
Qualified research tax credits	(\$1,000,000)	(\$1,000,000)	(\$1,000,000)
<u>Costs - Department of Revenue</u>			
Programming charges	(\$46,115)	\$0	\$0
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$1,046,115)</u>	<u>(\$1,000,000)</u>	<u>(\$1,000,000)</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2001 (10 Mo.)	FY 2002	FY 2003
	\$0	\$0	\$0

FISCAL IMPACT - Small Business

A direct fiscal impact to small businesses who incur qualified research expenses would be expected as a result of this proposal.

DESCRIPTION

This act provides tax relief for research and development. An eligible taxpayer who incurs qualified research expenses is eligible for a tax credit. "Qualified research expenses" are the sum of amounts of in-house research expenses and contract research expenses which are paid by the taxpayer during the taxable year for qualified research taking place in Missouri. "Qualified research" is any research which is undertaken for the purpose of discovering information which is technological in nature.

The credit allowed is equal to 10% of the taxpayer's qualified research expenses. If the qualified research expenses are in a distressed community, then the credit is 25% of the taxpayer's qualified research expenses. The total amount of tax credits available is ten million dollars. Two million dollars of the ten million dollars will be reserved for taxpayers incurring qualified research expenses in a distressed community. An individual taxpayer is allowed a maximum credit of five hundred thousand dollars. The maximum credit for qualified research expenses in a distressed community is one million two hundred fifty thousand dollars.

The Department of Economic Development will issue the taxpayer a certificate of tax credit if it is satisfied that the taxpayer meets all the requirements. The tax credit will be claimed on the taxpayer's return for the tax year in which the qualified research expense was incurred. The amount of the credit which exceeds the tax liability of the taxpayer may be carried forward for ten subsequent years. For qualified research expenses in a distressed community, the credit may also be carried back to any of the taxpayer's prior three years. A tax credit may be revoked if a taxpayer transfers the conduct of the qualified research to a location outside of Missouri.

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 Revenue
Department of Economic Development
Office of Administration
Budget and Planning



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Director
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