COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. NO.: 4460-01
BILL NO.: SB 1008
SUBJECT: Economic Development; Taxation and Revenue - General / Income.
TYPE: Original
DATE: March 1, 2000

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
General Revenue	$0 to ($5,500,000)	$0 to ($11,000,000)	$0 to ($11,000,000)
Total Estimated Net Effect on All State Funds	**$0 to ($5,500,00)**	**$0 to ($11,000,000)**	**$0 to ($11,000,000)**

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
None			
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 5 pages.

FISCAL ANALYSIS

ASSUMPTION

In response to an identical proposal from this year, officials from the **Department of Economic Development (DED)** state that this would decrease the Capital Tax Credit percentages from 40 percent to 30 percent, but leaves 60 percent of the tax credits for investors of businesses located in distressed communities. From the $6 million annual increase to Capital Tax Credit program, at least $4 million is designated for businesses in distressed communities. This proposal would change the ownership percentage and length that investments must stay in the qualified Missouri business if the business is a technology-based business. This proposal also increases Seed Capital Tax Credits from 50 percent to 75 percent of the qualified contribution into a distressed community seed business. Along with the increase in tax credits to $5 million per year, it adds that any unused amounts from Sec. 135.535, RSMo (Rebuilding Communities Tax Credit) and Sec. 620.1450, RSMo (Individual Training Account) will be "rolled" into the credits available for Seed Capital Tax Credits in the following year.

The DED assumed total state revenues could be negatively impacted by $11 million per year. The Capital Tax Credit (Sec. 135.400, RSMo) and the Seed Tax Credit (Sec. 348.300, RSMo) currently have caps on the cumulative amounts of the credits of $13 million and $9 million respectively. The DED assumed these caps have been or will be reached by the time this bill becomes effective, therefore, the $6 million and $5 million allowed for each program per year would be a new cost. The DED assumed there would be no impact from the change to the Rebuilding Communities (Sec. 135.535, RSMo) change since the yearly cap will be met each year. The change will only allow a different clientele to qualify. The impact of the changes to the Individual Training Account (Sec. 620.1450, RSMo) would be no impact since the $6 million yearly cap is also anticipated to be met each year.

Officials from the DED assumed the changes to the Rebuilding Communities program would make it easier for other larger businesses to qualify and would include some new qualifying entities. It would also roll unused tax credits forward and allow taxpayers to earn larger credits.

The DED assumed the Capital Tax Credit and the Seed Tax Credits will generate additional work commensurate with the need for one Economic Development Incentive Specialist II ($36,468). DED assumed there would be an appropriation needed for expense and equipment for this person as well.

In response to an identical proposal from this year, officials from the **Department of Revenue (DOR)** state that this would change the scope used by the Department of Economic Development on the approval and authorization of tax credits. They stated this could increase the number of filers, however, the Department did not anticipate a large increase and therefore, anticipated little or no administrative impact to the DOR.

ASSUMPTION (continued)

Officials from the **Office of Administration** state this proposal will not fiscally impact their agency.

Oversight assumes the Department of Economic Development will be able to authorize and issue the new annual limit on tax credits changed in this proposal with existing resources and will not require the additional FTE and corresponding expenses.

FISCAL IMPACT - State Government	FY 2001 (6 Mo.)	FY 2002	FY 2003
GENERAL REVENUE FUND			
Loss - General Revenue Fund Issuances of Capital Tax Credits	$0 to ($3,000,0000)	$0 to ($6,000,000)	$0 to ($6,000,000)
Loss - General Revenue Fund Issuances of Seed Tax Credits	$0 to ($2,500,0000)	$0 to ($5,000,000)	$0 to ($5,000,000)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**$0 to ($5,500,000)**	**$0 to ($11,000,000)**	**$0 to ($11,000,000)**

FISCAL IMPACT - Local Government	FY 2001 (6 Mo.)	FY 2002	FY 2003
	$0	$0	$0

FISCAL IMPACT - Small Business

This proposal could have a direct fiscal impact to small businesses within a distressed community and receiving a tax credit.

DESCRIPTION

This proposal redirects a higher percentage of community bank investment to qualified businesses in distressed communities. The tax credit available for investment in a small business is reduced from 40% to 30%. The amount of tax credits available is modified from $13 million total with $4 million total available for businesses in distressed communities to a total aggregate amount of $6 million per year with $4 million per year available to businesses with distressed communities.

The percentage of collective qualified investment allowed by community bank investors qualifying for the tax credit is increased from 50% to 80% for small technology-based businesses. Such investors must remain in the technology-based business for a minimum of two years.

Tax credits will be revoked if an investment in any qualified business is withdrawn before the required duration of the investment has expired. However, such credits will not be withdrawn if such business changes ownership or if such business offers itself for investment by the general public as long as the business continues to operate.

The percentage of employees at a distressed community facility for any business locating or relocating a business facility to a distressed community is reduced from 75% to 60% and the total number of employees at such facility may not exceed 150, instead of 100, in order for the business to qualify for the tax credit available to businesses locating in distressed communities.

The 40% tax credit available for the purchase of certain equipment at a business facility located in a distressed community is also available for a lease of at least 2 years for such equipment.

If the total amount of tax credits available for businesses in distressed communities is not expended within the year, then the balance of such credit is transferred to provide tax credits for contributions to a qualified fund in support of Innovation Centers which provide seed capital to certain businesses.

Follow-up capital investment in any business previously receiving investment from a qualified fund is modified to allow investment in any Missouri business in which the qualified fund has invested capital in the previous 3 years.

The tax credit for a contribution to a qualified fund is increased from 50% to 75% of the amount of the contribution. The aggregate amount of tax credits available to contributors to a qualified fund is $5 million per year plus any unused distressed community tax credit amounts available from the previous year.

DESCRIPTION (continued)

Any unused portion of the tax credits allowed pursuant to the Missouri Individual Training Account program will also be transferred to support contributions to qualified funds for Innovation Centers.

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
Office of Administration

Jeanne Jarrett, CPA
Director
March 1, 2000