COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. NO.: 4607-01
BILL NO.: SB 1048
SUBJECT: Economic Development Department; Revenue Department; Taxation and Revenue - Income.
TYPE: Original
DATE: February 29, 2000

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
General Revenue	$7,900,000	$1,300,000	$1,300,000
Total Estimated Net Effect on All State Funds	**$7,900,000**	**$1,300,000**	**$1,300,000**

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

Officials from the **Department of Economic Development (DED)** state this proposal makes changes to numerous tax credit and incentive programs as follows:

Missouri Development Finance Board. Ch. 100 Eliminates the ability of MDFB to grant tax credits for contributions to the development and reserve fund and export finance fund. The change is cost neutral.

New/Expanding Business Facility Tax Credit Program. Section 135.100 et seq. The program is changed from an entitlement program to a discretionary program so that DED can better target the use of its incentives. This change should result in undetermined revenue increases.

Enterprise Zone Tax Credit Program. Section 135.200 et seq. The program is changed from an entitlement program to a discretionary program so that DED can better target the use of its incentives. This change should result in undetermined revenue increases.

Capital Tax Credit Program. Section 135.400 et seq. This program is changed from an entitlement program to a discretionary program. The formula for credits will remain the same. Previously this program had cumulative caps that were renewed or increased. This draft sets an annual cap in the amount of $9 million per year.

Community Bank Tax Credit. Also Section 135.400 et seq. The program is changed by removing the targeting of the program to give it increased flexibility. One million annually would be allocated from the tax credits authorized by Chapter 32 and the cumulative credit cap would be repealed. The program is currently underutilized and thus the fiscal impact is projected to result in $4.8 savings for FY 2001 only.

Rebuilding Communities and Neighborhood Preservation Act. Section 135.475 et seq. The draft corrects an error in SB 20, which established the program, by properly outlining the distribution of credits between qualifying areas and eligible areas so that new construction projects are able to receive credits. Also, the draft would give the Director authorization to redistribute the credits after July 1 of any year in the event of underutilization in one of the two types of areas. The impact is projected to be revenue neutral.

Distressed Communities Tax Credit Program. Section 135.535 This draft makes only minor technical changes, including repealing one version of a statute as two different versions are currently printed in the Revised Statutes. These changes are revenue neutral.

ASSUMPTION (continued)

Transportation Development Tax Credit. Section 135.545 This proposal changes the program from an entitlement program to a discretionary program. Additionally, the amount of credits authorized for this program is decreased from $10 million annually to $5 million annually, thus resulting in a revenue increase of $5 million annually.

Wine/Grape Program. Section 135.700 This changes the program from an entitlement program to a discretionary program. These changes are revenue neutral.

Small Business Administration Guarantee Fee Tax Credit. Section 135.766 This draft repeals the credit. This credit has no cap and was enacted last year. The revenue impact is projected at a positive $4 million per year.

Research and Development Sales/Use Tax Exemption. Section 144.010 & .030 This draft repeals the R & D sales/use tax exemption enacted last year. The projected impact is a positive $1.3 million per year.

Community College New Jobs Training Program. Section 178.892 These changes authorize health firms and professional firms to be eligible for the program. Changes the administrative expenses for the community colleges from a guaranteed 15% to an amount determined by the director ranging from 10% to 15%. These changes should result in an undetermined cost savings but be revenue neutral.

Family Development Account Program Section 208.750 This is a technical change to the program to allow all not-for-profits to be eligible to participation the program. This change is revenue neutral.

Seed Capital Tax Credit Program Section 348.300 et seq. This change repeals the program. (Note: this is not the New Enterprise Creation Act, which was passed last year). The program has a cumulative credit and the repeal of the program should result in a positive $1.8 million, one time savings.

Brownfield Redevelopment Program. Section 447.708 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.

ASSUMPTION (continued)

Missouri Job Development Fund (Customized Training Program) Section 620.470 et seq. These changes will allow consortiums (where large and small companies that have similar training needs can join together) to be eligible for participation in the program. Makes other technical changes to open the program to more industries. Removes the requirement for this program to be contracted through DESE. The fiscal impact is projected to be revenue neutral.

Qualified Research Expense Tax Credit. Section 620.1039 The proposal changes the program from an entitlement program to a discretionary program. It also allows the credits to be transferred. Increases the annual cap from $10 million to $11 million per year. Revenue impact is projected at a negative $1 million per year.

Section 620.1400 et seq. The proposal combines the Mature Worker Program and the Individual Training Account (ITA) Program by authorizing the credits to be used in non-distressed communities for child care and other high-demand industries. The ITA program as currently written is only for training in distressed communities. The proposal also establishes a tiered system of awarding credits which allows for limited credits to be authorized for training for workers earning higher wages in distressed communities. The revenue impact is projected cost an additional $1 million.

Mature Worker Tax Credit Program. Section 620.1560 This program is repealed (combined with ITA – see previous paragraph). The repeal results in a positive impact on TSR of $2 million per year.

The DED assumes the need for one (1) additional FTE, an Economic Development Incentive Specialist II (at $36,468 annually) to cover increased work associated with the Capital Credit and Research Tax Credit programs. The DED assumes, by making these programs more review will need to be conducted. The DED also anticipates the need for associated expenses and equipment.

Oversight assumes the DED could administer the changes specified in this proposed legislation with existing resources and have not reflected the costs of an additional FTE.

Officials from the **Department of Revenue (DOR)** state they do not anticipate an increase in the number of tax credits received and therefore will not request additional FTE at this time. However, if the number of tax credits increases, the Division of Taxation, Personal Tax Bureau, will need one temporary tax season employee (a cost of $6,067) for every 130,000 credits filed with this credit (key entry) and one Tax Processing Tech I for every 2,000 credits claimed (processing). The Personal Tax Bureau will also need one Tax Processing Tech I for every 30,000 additional errors generated. The Division of Taxation, Business Tax Bureau, will need one Tax Processing Tech I for every 3,680 credits received.

Officials from the **Department of Natural Resources (DNR)** state the proposed legislation creates a demolition tax credit. However, since the department does not know the amount of tax credits that may be approved, the department is unable to determine the impact on total state revenues.

The DNR states 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 department would have to approve any tax credits authorized by this provision.

Before the DNR approves the demolition tax credit, the participant will have to demonstrate to the department that hazardous substances are not contained within or beneath the structure. This demonstration could be made in the documents the DNR reviews during their 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 DNR estimates 25 to 30 sites per year. The DNR 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 provisions of this proposal in Chapter 144 appear to remove the exemption from sales taxes available to life sciences companies for the purchase of equipment for research activities and the sales tax exemption for property purchased for research or experimentation. If these exemptions are removed by this proposal, there could be additional revenue generated for the Soil and Water Sales Tax Fund and the State Park Sales Tax Fund pursuant to Article IV Section 47 of the Missouri Constitution. The department is unable to estimate the amount of revenue that could be generated by these provisions.

FISCAL IMPACT - State Government	FY 2001 (10 Mo.)	FY 2002	FY 2003
GENERAL REVENUE FUND			
Costs - Capital Tax Credit	($9,000,000)	($9,000,000)	($9,000,000)
Savings - Community Bank Tax Credit	$4,800,000	$0	$0

FISCAL IMPACT - State Government	FY 2001	FY 2002	FY 2003

(continued)	(10 Mo.)		
Savings - Transportation Dev. Tax credit	$5,000,000	$5,000,000	$5,000,000
Savings - Small Business Adm. Guarantee Fee Tax Credit	$4,000,000	$4,000,000	$4,000,000
Savings - Research and Devel. Sales/Use Tax Exemption	$1,300,000	$1,300,000	$1,300,000
Savings - Seed Capital Tax Credit	$1,800,000	$0	$0
Costs - Research and Development Tax Credit	($1,000,000)	($1,000,000)	($1,000,000)
Costs - Mature Worker and Individual Training Account Program	($1,000,000)	($1,000,000)	($1,000,000)
Savings - Mature Worker Tax Credit Repeal	$2,000,000	$2,000,000	$2,000,000
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**$7,900,000**	**$1,300,000**	**$1,300,000**

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

FISCAL IMPACT - Small Business

This proposal would have a direct fiscal impact to small businesses that are eligible to receive tax credits from the Department of Economic Development would be expected as a result of this proposal.

DESCRIPTION

This "Tax Credit Responsibility Act" modifies several tax credit programs administered by the Department of Economic Development for enhanced programmatic control and oversight. Programs modified include:

DESCRIPTION (continued)

1. New and Expanded Business Facility tax credits;

2. Enterprise Zone tax credits;

3. Community Bank and Small Business Investment tax credits;

4. "Rebuilding Communities and Neighborhood Preservation Act tax credits;

5. Tax credits for businesses relocating to distressed Communities;

6. Tax credits for transportation development activities in distressed communities;

7. Tax credits for grape growers;

8. Tax credits for remediation activities on abandoned properties;

9. Tax credits for qualified research expenses;

10. Tax credit allowed for job training programs; and

11. Tax credits for contributions to the Missouri Development Finance Board.

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

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