

COMMITTEE ON LEGISLATIVE RESEARCH
 OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0435-01
Bill No.: SB 172
Subject: Business and Commerce; Minorities; Taxation and Revenue-General-Income
Type: Original
Date: January 26, 2001

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
General Revenue	(\$10,142,666)	(\$10,156,257)	(\$10,160,327)
Total Estimated Net Effect on <u>All</u> State Funds	(\$10,142,666)	(\$10,156,257)	(\$10,160,327)

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
Local Government	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
 This fiscal note contains 5 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Economic Development (DED)** state that DED reviews applications from businesses and certifies them as minority businesses; allocates each business a maximum amount of credits that can be issued for qualified payments to the MBE; and certifies the tax credit to the taxpayer and the Department of Revenue (DOR). It is assumed that DED staff would perform the main functions of this program as it staffs the MBAC. In addition, annual tax credits of \$10 million would be applied against tax liability or refunded amounts would be made and additional administrative costs would be incurred.

DED assumes that the Missouri Minority Business Advocacy Commission would delegate administration of the tax credit to DED. Therefore DED's response requests people and expenses.

DED states that the U.S. Census Bureau says there are 15,437 minority businesses in Missouri. If each minority business received an equal share of the \$10 million tax credits available, that would be \$648 each or \$6,480 in sales that would qualify for the credit; given that small amount per business, it is highly likely that the total \$10 million in tax credits would be used each year.

DED assumes that the amount of sales authorized for each minority business would be certified to DOR per the legislation.

DED assumes that certification from the seller of the amount of purchases by taxpayers is essential for DOR to know what taxpayers have authorized credits and qualify for the credit or refund. Certification of the individual credit amount to DOR by DED is required by the legislation. That is why the response requests additional temporary services funds.

DED assumes that it would take: One (1) Economic Development Incentive Specialist II at range 23 - \$37,488, One (1) Economic Development Incentive Specialist I at range 18 - \$30,204, and One (1) Clerk Typist II at range 9 - \$20,472. Related expense and equipment including system furniture, phones, fax, and expenses for travel, communications, office and professional development plus floor space rental.

Oversight assumes no additional rental space would be required.

Officials from the **Department of Revenue (DOR)** stated this legislation authorizes a tax credit for taxpayers who purchase goods or services from a qualified minority business enterprise. The tax credit is equal to 10% of the qualified payments made, not to exceed \$100,000. The tax credit is refundable.

ASSUMPTION (continued)

A minority business enterprise must qualify by applying to the Governor's Commission on Minority Business Development. If approved, the Commission will send a certificate of approval to the taxpayer, which will expire on December 31st of the year it was issued. The minority business enterprise must apply to the Commission for renewal of the certificate. The tax credits are not to exceed \$10 million. The Commission will certify the tax credits to the Department of Revenue.

ADMINISTRATIVE IMPACT:

The number of taxpayers eligible for these tax credits is unknown at this time. The Division of Taxation, Personal Tax Bureau, will need one temporary tax season employee (\$8.00 an hour) for every 225,000 returns filed (key entry) and one Tax Processing Tech I for every 10,000 credits claimed each year (processing). One Tax Processing Tech I will also be needed for every 4,000 additional pieces of correspondence and every 20,000 additional errors generated by this legislation. The Division of Taxation, Business Tax Bureau, will need one Tax Processing Tech I for every 3,680 credits claimed.

This legislation will require modifications to the individual and corporate income tax systems. The Division of Taxation estimates these modifications, including programming changes, will require 779 hours of contract labor, a cost of \$26,254. Modifications to tax returns and schedules will be completed with existing resources. State Data Center charges will increase due to the additional storage and fields to be captured. Funding in the amount of \$2,812 is requested for implementation costs and \$2,473 is requested for on-going costs.

In a previous similar proposal, DOR stated the proposal would require modifications to the income tax system, income tax return, and schedules that would be completed with existing resources. Therefore, **Oversight** assumes DOR can complete the required modifications, including programming changes, with existing resources. Oversight has allowed the funding of \$2,812 for the data center charges due to the additional storage and fields to be captured.

The **Office of Administration, Budget and Planning (BAP)** officials deferred to the Department of Economic Development on revenue projections.

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

FISCAL IMPACT - State Government

FY 2002
(6 Mo.)

FY 2003

FY 2004

GENERAL REVENUE FUND

<u>FISCAL IMPACT - State Government</u>	FY 2002 (6 Mo.)	FY 2003	FY 2004
<u>Loss - General Revenue Fund</u>			
Tax credits on minority purchases	(\$10,000,000)	(\$10,000,000)	(\$10,000,000)
<u>Cost - Dept. of Economic Development</u>			
Personal service (3 FTE)	(\$75,307)	(\$92,627)	(\$94,943)
Fringe benefits	(\$25,100)	(\$30,873)	(\$31,645)
Expense and equipment	(\$39,447)	(\$32,757)	(\$33,739)
Total <u>Cost</u> - DED	(\$139,854)	(\$156,257)	(\$160,327)
<u>Cost - Dept. of Revenue</u>			
Programing changes	<u>(\$2,812)</u>	<u>\$0</u>	<u>\$0</u>
ESTIMATE NET EFFECT ON GENERAL REVENUE FUND	<u>(\$10,142,666)</u>	<u>(\$10,156,257)</u>	<u>(\$10,160,327)</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2002 (6 Mo.)	FY 2003	FY 2004
	\$0	\$0	\$0

FISCAL IMPACT - Small Business

Minority businesses that apply for participation in the program have to track sales to ensure that they did not make sales for credits beyond the amount authorized. Impact to businesses not participating in the program is unknown. The credits would "incent" 100 million dollars annually in certified minority businesses.

DESCRIPTION

This act authorizes a state income tax credit equal to ten percent of all purchases of goods or services from a minority business enterprise which has been approved by the Governor's Commission on Minority Business Development. The credit is limited to one hundred thousand dollars per taxpayer for each taxable year. If the amount of the credit exceeds the taxpayer's tax liability, the difference is refundable. The total amount of the credit which may be taken during any one taxable year is limited to ten million dollars. Knowingly providing goods and services for qualified payments in excess of the limits established by the Commission is a Class A misdemeanor. The act applies to all taxable years beginning after December 31, 2001.

DESCRIPTION (continued)

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
Division of Budget and Planning

A handwritten signature in black ink, appearing to read "Jeanne Jarrett". The signature is written in a cursive style with a large initial "J".

Jeanne Jarrett, CPA
Director

January 26, 2001