COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1292-02
Bill No.: SB 373
Subject: Taxation and Revenue; Business and Commerce
Type: Original
Date: February 12, 2001

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
General Revenue	$0 to ($10,000,000)	$0 to ($16,000,000)	$0 to ($16,000,000)
Total Estimated Net Effect on All State Funds	**$0 to ($10,000,000)**	**$0 to ($16,000,000)**	**$0 to ($16,000,000)**

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
None			
Total Estimated Net Effect on All 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 4 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Economic Development** (DED) did not respond to our request for fiscal impact.

Oversight has made the following assumptions based upon responses from DED to similar legislation both this session and last session;

135.400 – Redefines (10) Redefines "Principal Owners" . No Impact.

135.403 - Capital Tax Credit Program. As all of the credits authorized for this program have been allocated (it was established with a cumulative cap of $13 million), this draft establishes credits in the amount of $6,000,000 per year, starting January 1, 2002, which will result in a negative impact on Total State Revenues (TSR). It also dedicates $3.00 million for use in distressed communities. Oversight assumes with the start date of the change as January 1, 2002, the TSR will not be impacted until FY 2003.

135.408 – Ownership of “small business” changes from a 50% level to a maximum of 80% for investors. No Impact.

135.411 and 423 – The length of time a qualified investment must remain in a small business is changed from 5 years to 2 years. The DED is given authority to revoke and pro-rate collection of credits. Sale of a business does not automatically trigger a revocation if the business continues. No Impact.

348.300 – 302 Seed Capital Tax Credit Program This change raises the credit percent from 50% to 75% for contributions. Also allows for credits if investment was made in previous 3 years. Tax credits of $5 million annually are authorized. The program currently has a cumulative cap of $9 million which has been fully allocated. The revenue impact is projected to result in a cost of $5 million per year.

620.1039 - Research and Development Tax Credit Program - Oversight assumes increasing the annual tax credits authorized from $9.7 million to $14.7 million may result in an increased cost of $5 million per year. At least $5 million per year (of the new $14.7 annual total) shall be available for use by small life science companies.

620.1450 - Individual Training Account Program. Oversight assumes transferring any unused tax credits from the ITA program (total of $6 million) to section 348.302 RSMo (Seed Capital Tax Credit Program) will not result in additional costs to the state.

ASSUMPTION (continued)

Officials from the **Department of Revenue (DOR)** state this proposal changes the tax credits for investments in small business and distressed communities. The DOR does not anticipate a significant increase in the number of new credits filed. Therefore, the DOR will not request additional FTE at this time. However, if the DOR is incorrect in this assumption, they will need one Temporary Tax Season Employee for every 150,000 additional credits, one Tax Processing Tech I for every 10,000 additional errors generated and one Tax Processing Tech I for every 3,000 additional pieces of correspondence received regarding this credit. Any FTE needed will be requested during the normal budget process.

Oversight has ranged the fiscal impact of this proposal from no-one taking advantage of the increased tax credits ($0), to the new annual allowances being completely used.

FISCAL IMPACT - State Government	FY 2002 (10 Mo.)	FY 2003	FY 2004
GENERAL REVENUE			
Costs - Capital Tax Credit	$0	$0 to ($6,000,000)	$0 to ($6,000,000)
Costs - Seed Capital Tax Credit	$0 to ($5,000,000)	$0 to ($5,000,000)	$0 to ($5,000,000)
Costs - Research and Development Tax Credit Program	$0 to ($5,000,000)	$0 to ($5,000,000)	$0 to ($5,000,000)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**$0 to ($10,000,000)**	**$0 to ($16,000,000)**	**$0 to ($16,000,000)**

FISCAL IMPACT - Local Government	FY 2002 (10 Mo.)	FY 2003	FY 2004
	$0	$0	$0

FISCAL IMPACT - Small Business

This proposal could have a direct fiscal impact to small businesses that qualify for the tax credits or are in distressed communities.

DESCRIPTION

This proposal makes several changes in tax credits available to those who invest in Missouri small businesses. It reduces the ownership percentage which a person must hold in a small business to qualify for the small business investment tax credits, from 50% to 20%. It also increases the aggregate percentage ownership which investors may hold and still qualify for tax credits, from 50% to 80%. Under current law, tax credits for investments in small businesses cannot exceed an aggregate cap of $13 million, and at least $4 million of that must be invested in distressed communities. This act changes the total available credits to $6 million per year, with at least $3 million per year made available for investments in small businesses in distressed communities. Qualifying investments in Missouri small businesses must be held for a minimum of 2 years; down from 5 years under current law. This act prohibits any revocation of a tax credit issued pursuant to these sections from applying to a subsequent good faith purchaser.

The proposal also changes the maximum amount of tax credits authorized for contributions to innovation centers from an aggregate cap of $9 million, to an annual total of $5 million, plus any unused credits which were available for investment through the Missouri Individual Training Account Program.

The proposal also increases the annual tax credits available for research and development (R&D) expenses, from $9.7 million to $14.7 million, with at least $5 million of that amount made available for use by Missouri-based companies which engage in life science research and which have fewer than 150 employees. The proposal has an emergency clause.

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

NOT RESPONDING: Department of Economic Development

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Director
February 12, 2001

RAS:LR:OD (12/00)