COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1967-02
Bill No.: SB 531
Subject: Economic Development; Taxation and Revenue
Type: Original
Date: March 21, 2001

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
General Revenue	$2,000,000	$2,000,000	$2,000,000
Total Estimated Net Effect on All State Funds	**$2,000,000**	**$2,000,000**	**$2,000,000**

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 5 pages.

FISCAL ANALYSIS

ASSUMPTION

The **Department of Economic Development (DED)** states that this proposal increases the tax credit amount for the Certified Capital Companies tax credit program by $50 million. The redeemed tax credits could not exceed 10% per year of the cumulative credits earned; therefore only $5 million of the new allocation of credits could be taken in any one year. A revision of the current rules and regulations for the CAPCO program would need to be undertaken by DED. DED approves the CAPCOs and authorizes the tax credits to investors. This requires DED to set up a standard set of guidelines for the CAPCOs to follow during the process. There is then daily monitoring of the program, including approving investments in the qualified small businesses, collecting quarterly reports, and making sure the necessary reporting is completed. The DED would be required to administer and oversee the additional credits.

The DED states this proposal also decreases the cap in the Family Development Account from $4 million to $2 million - a savings of $2 million per year. It also decreases the cap of the Missouri Individual Training Account Program from $6 million to $1 million - a saving of $5 million per year.

DED assumes the need for an Economic Development Specialist II at ($31,024 per year). This person would be responsible for approving the CAPCOs, authorizing tax credits and monitoring progress of the investments and overall program. DED also assumes the need for a Clerk Typist II (at $20,472 per year). This person was not requested in a similar proposal from last session, however, further review of the requirements dictates the need. The Clerk Typist II would be responsible for assisting the Econ. Dev. Specialist II with monitoring the CAPCO program, which includes, typing tax credit authorizations, miscellaneous letters and reports, setting up meetings, etc.

Oversight assumes the Department of Economic Development could use resources saved from the reduction of the Family Development Account as well as the Individual Training Account Program to help administer the additional $50,000,000 in CAPCO tax credits and therefore, will not require the additional FTE requested. This additional amount will be the fourth round of CAPCO tax credits administered, bringing the total credits authorized to $190,000,000. Since many of the same investors participate in each round of tax credits, DED's efforts to collect reports, monitor investments, etc. is aided by having fewer contacts.

Officials from the **Department of Insurance (INS)** states this proposal adds Missouri Agriculture business to those eligible to receive capital investments. After August 28, 2001, 25% of such qualified investments must be in a qualified Missouri Agriculture businesses.

ASSUMPTION (continued)

The INS assumes this legislation modifies the aggregate credits allowed by authorizing an additional $5 million in year 2001 and an amount not to exceed 10% of cumulative credits earned in previous years for every year thereafter, beginning in 2002. Premium tax revenues collected could decrease by $5 million in calendar year 2001, but the impact of capping aggregate credits at 10% of cumulative credits earned in previous years cannot be determined. Premium tax revenues are split 50/50 between General Revenue and County Foreign Insurance Fund.

Oversight assumes that based on Section 148.350(3) RSMo, premium tax credits being utilized through the CAPCO program only reduce the General Revenue Fund, and do not impact the County Foreign Insurance Fund.

The **Department of Revenue (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 assume they will need one Temporary Tax Season Employee for every 75,000 additional credits, one Tax Processing Tech I for every 30,000 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.

Officials from the **Department of Agriculture** assume this proposal would not fiscally impact their agency.

FISCAL IMPACT - State Government	FY 2002 (10 Mo.)	FY 2003	FY 2004
GENERAL REVENUE FUND			
Costs - Certified Capital Company Program	($5,000,000)	($5,000,000)	($5,000,000)
Savings - Family Development Account Program	$2,000,000	$2,000,000	$2,000,000
Savings - Individual Training Account Program	$5,000,000	$5,000,000	$5,000,000
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	**$2,000,000**	**$2,000,000**	**$2,000,000**

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

FISCAL IMPACT - Small Business

This proposal would fiscally impact small businesses that qualify for and receive investments from the Certified Capital Companies. This proposal puts an emphasis on investment into small agriculture companies.

DESCRIPTION

For purposes of the Missouri Certified Capital Company Law, this proposal changes the definition of "capital in a qualified Missouri business" to include "capital in a qualified Missouri business or a qualified Missouri agricultural business," and requires that, of the certified capital raised after August 28, 2001, at least 25% of the dollar amount must be invested in qualified Missouri agricultural businesses.

The proposal also changes the cap on the total amount of certified capital for which earned and vested credits against state premium tax liability are allowed for 1998, 2001, and the years after 2001. For calendar years 1998 and 2001 each, the proposal sets the cap at an amount which would entitle all Missouri certified capital company investors, on an annual basis, to take an additional $5 million in tax credits. After calendar year 2001, the aggregate amount of earned and vested CAPCO credits that may be taken on an annual basis may not exceed an amount equal to 10% of the cumulative credits earned in respect of certified capital invested in previous years.

The proposal states that any certified capital which is controlled totally by the Missouri certified capital company can now be invested with an investor of the Missouri certified capital company or an affiliate or subsidiary which is providing a guaranteed payment in favor of the investors that have invested certified capital in the company.

The limit on tax credits relating to the Family Development Account Program is reduced from $4 million to no more than $2 million per year. The limit on tax credits relating to the Individual Training Account Program is reduced from $6 million to no more than $1 million annually.

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 Insurance
Department of Revenue
Department of Agriculture

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Director

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