COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4412-01
Bill No.: SB 1117
Subject: Taxation and Revenue; Economic Development; Business and Commerce.
Type: Original
Date: February 19, 2002

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
General Revenue *	$0 to ($10,000,000)	$0 to ($10,000,000)	$0 to ($10,000,000)
Total Estimated Net Effect on All State Funds *	**$0 to ($10,000,000)**	**$0 to ($10,000,000)**	**$0 to ($10,000,000)**

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
None			
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
Local Government *	**$0**	**$0 to ($5,000,000)**	**$0 to ($5,000,000)**

*** The fiscal impact could be partially divided between the General Revenue Fund and the County Foreign Insurance Fund (which ultimately goes to local school districts in the next fiscal year) if some of the tax credits are utilized against insurance premium taxes. The total fiscal impact to all funds would be $0 to ($10,000,000)**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 6 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Economic Development (DED)** state the proposal makes the following changes with the corresponding fiscal impacts to state revenues;

135.400 – (3) Redefines ""Community Development Corporation"" and (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 five million five hundred thousand per year which will result in a negative impact on TSR. It also dedicates $2.75 million for use in distressed communities.

135.403 - Community Bank Tax Credit. One million dollars annually is allocated for the Community Bank Tax Credit Program from chapter 32. This change will result in the allocation by $500,000.

135.408 – Ownership of "small business" changes from a 50% level to a maximum of 65% for investors.

135.411 and 423 – The length of time a qualified investment must remain in a small business is changed from 5 years to 3 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.

135.535 - Distressed Communities Tax Credit Program. This proposal makes technical changes. This proposal is considered cost neutral. It lowers the percent of employees in a distressed community to 60% from 75%, allows companies to have 150 (200 if in distressed area) employees vs. 100, and allows credits for capital lease or purchase of computer equipment. Unused credits added to Seed Capital Program. This could result in additional but unpredictable costs because current credits of $10 million are not all claimed and may require additional personnel/expenses at a later time.

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 $4.5 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 $4.5 million per year.
In total, DED assumes this proposal could result in a reduction to the General Revenue fund of $10,000,000 plus annually. DED assumes no additional personnel or equipment are needed at present. The proposed legislation has an emergency clause and will go into effect upon passage.

ASSUMPTION (continued)

Officials from the **Department of Revenue (DOR)** state they do not anticipate a significant increase in the number of new credits filed. Therefore, DOR will not request additional FTE at this time. However, if DOR is incorrect in this assumption, they will need one Temporary Tax Season Employee for every 10,000 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. DOR will monitor the credit and any FTE needed will be requested during the normal budget process.

Officials from the **Department of Insurance (INS)** state this legislation reduces the total tax credits available from 13 million to 5.5 million per year and reduces certification time from every 10 years to every five years. A cap placed qualified contributions so that the aggregate shall not exceed 4.5 million dollars per year plus any unused amounts. INS assumes the changes will likely increase the amount of premium tax revenues collected and deposited into GR and County Foreign Insurance Fund, however, the amount of increased revenue is unknown.

Oversight assumes the tax credit programs changed in this proposal are being changed from aggregate caps to annual limit, therefore, have reflected a possible loss to the General Revenue fund of $0 to the newly created annual limits. Oversight has not reflected any possible positive affects of issuing the tax credits on this fiscal note.

This proposal could impact Total State Revenues.

FISCAL IMPACT - State Government	FY 2003	FY 2004	FY 2005
GENERAL REVENUE			
Loss - Capital Tax Credit Program changed from an aggregate cap to an annual limit (Sec. 135.403)	$0 to ($5,500,000)	$0 to ($5,500,000)	$0 to ($5,500,000)
Loss - Tax Credit for Contributions to Innovation Centers Program (Seed Capital) changed from an aggregate cap to an annual limit (Sec. 348.300)	$0 to ($4,500,000)	$0 to ($4,500,000)	$0 to ($4,500,000)
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	**$0 to ($10,000,000)**	**$0 to ($10,000,000)**	**$0 to ($10,000,000)**

Note: Some of the tax credits could be utilized by insurance companies against insurance premium taxes. If this occurs, the loss in tax revenue would be partially split between the General Revenue Fund and the County Foreign Insurance Fund, which ultimately goes to local school districts. The total fiscal impact to all funds would be $0 to ($10,000,000) each year.

FISCAL IMPACT - Local Government	FY 2003	FY 2004	FY 2005
LOCAL SCHOOL DISTRICTS			
Loss - Potential loss of insurance premium tax revenues, one-half of which goes to local school districts.	**$0**	**$0 to ($5,000,000)**	**$0 to ($5,000,000)**

FISCAL IMPACT - Small Business

The proposal could have a direct fiscal impact on small businesses within distressed communities and small businesses that qualify for the changed tax credit programs.

DESCRIPTION

This proposal makes various changes to economic development programs relating to distressed communities and small business investment tax credits, including:

(1) Changes the definition of a community development corporation to stress industrial, economic, entrepreneurial, commercial and civic development of projects that benefit low-income individuals and communities;

(2) Lowers the investment requirement of principal owners of Missouri small businesses eligible for investment from 50% of the business to 35% of the business;

(3) Eliminates the designation of a "target area" for purposes of identifying areas of poverty by the Department of Social Services;

(4) Changes the statewide limit on all tax credits for investments in a small business from an aggregate $13 million total to an annual total of $5.5 million with $2.75 million to go to distressed communities;

(5) Increases the maximum percentage of investment ownership allowed in a small business to qualify for a tax credit from 50% to 65%;

(6) Reduces the time period requirement for investment in a small business from 5 years to 3 years and excludes any sale, change of control, or the going public of a business from the minimum period of time for investment for purposes of the small business investment tax credit program;

(7) Reduces the percentage of employees required to be located at a business contained within distressed communities from 75% to 60% and increases the maximum number of employees at a business contained within a distressed community from 100 to 150 to qualify for the distressed communities tax credit program;

(8) Allows the leasing of certain technology equipment to qualify as an expense for purposes of obtaining a tax credit and increases the maximum tax credit for such equipment expense from $75,000 to $150,000;

(9) Increases the allowable tax credit percentage of the amount of qualified contribution to a qualified fund for purposes of tax credits for contributions to innovation centers from 50% to 75% and changes the amount of statewide credits for contributions to innovation centers from $9 million aggregate to an annual total of $4.5 million;

DESCRIPTION (continued)

(10) Allows any unused credits for these tax credit programs from the previous year to be added to any statewide caps for these programs in future years;

(11) Expands the availability of follow-up capital to include businesses which have previously received follow-up capital within the last 3 years for purposes of tax credits for contributions to innovation
centers;

(12) Requires the Department of Economic Development to pursue a revocation of the tax credits only from the original applicant for the tax credit.

This act contains 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 Economic Development
Department of Revenue
Department of Insurance

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