COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1121-02
Bill No.: SB 336
Subject: Taxation and Revenue; Economic Development; Business and Commerce.
Type: Original
Date: March 10, 2003

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Total Estimated Net Effect on General Revenue Fund	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
None			
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
None			
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Insurance**, **Office of Administration - Budget and Planning** and the **City of Kansas City** each assume this proposal would not fiscally impact their respective agencies.

Officials from the **Department of Revenue (DOR)** state they do not anticipate a significant amount of additional credit claims will be received; however, if this assumption is incorrect, DOR assumes they will need One Tax Processing Tech I for every 15,000 additional credits claimed by this legislation. DOR states they will monitor the credit and if FTE are needed, the request will be made through the normal budgetary system.

Officials from the **Department of Economic Development (DED)** state the proposal makes the following changes;
135.400 (3) - Revises definition of a Community Development Corporation.
135.400 (10) - Lowers aggregate principal owner percentage from 50% to 35%.
135.400 (13) - Deletes entire section of "Target area" definition.
135.403 - Changes carry forward for tax credit from ten to five years and also changes some of the

ASSUMPTION (continued)

wording for filing with the department for transfers of the tax credit.
135.408 - Changes the ownership percentage for investors from 50 to 65%.
135.411 - Changes number of years an investment must remain in the business from five years to three and adds five year requirement for distressed community businesses. Makes revisions to how the department may pro rate the revocation or repayment of tax credits and adds a sentence regarding what will NOT trigger the revocation.
135.423 - Changes to language regarding revocation of tax credits and that it only applies to the original applicant and not someone who in good faith buys the tax credit.
135.535 - Language change regarding businesses moving into a distressed community and number of employees. Also, adds language to include NAICS codes as appropriate classification for businesses.
135.535.3 - Adds language regarding maximum tax credit allowed.
135.535.5 - Increases maximum of business hiring employee number from 100 to 200.
135.535.6 - Language change regarding tax credit transfers.
135.535.7 - Allows unused tax credits from Rebuilding Communities program in one year to be transferred to the 348.302 old Seed Tax credit program in the following year. This could result in additional but unpredictable costs because current credits of $10 million are not all authorized or claimed and may require additional personnel/expenses at a later time.

DED state that in their fiscal note response to the bill when enacted (HB 1656, 1999), they projected a cost of $10 million annually – the cap on the program. If that fiscal note response is the baseline, then this bill will have no fiscal impact. If the baseline is actual amounts projected to be authorized, this program has never authorized $10 million in credits in any year. In FY 02 DED authorized approximately $5.5 million in credits, and approximately $3.4 million in credits were redeemed. For FY04, DED projects $6.25 million authorized and $5 million redeemed. Accordingly, the effect of this change could increase the authorized amounts for the Seed Tax credit program anywhere from $0 to $5 million annually, based on projections, but it could be higher than that depending upon actual program activity.

In summary, DED assumes that no additional personnel or equipment are needed at present as a result of this proposal. DED assumes the fiscal impact to the state is from $0 to $5 million.

Oversight assumes, based upon information from DED, that changes to the Small Business Investment Capital program (Sections 135.400 - 135.423) of the proposal would have no fiscal impact because the program has an aggregate cap of $13 million in tax credits that have already been fully exhausted.

ASSUMPTION (continued)

Oversight also assumes, based upon information from DED, that changes to the Seed Capital for Innovation Centers program (Sections 348.300 - 348.302) of the proposal would have no fiscal impact because the program has an aggregate cap of $9 million in tax credits that have already been fully exhausted.

Oversight also assumes that changes to the Rebuilding Communities program (Section 135.535) could increase the amount of tax credits that are issued by DED and utilized by taxpayers. The annual cap of $10 million has never been completely utilized, so this proposal may increase the number of credits that are issued and utilized. According to DED, they authorized approximately $5.5 million in tax credits under this program in FY 2002. Therefore, roughly $4.5 million of the tax credits were not issued by DED. Also, with this proposal, any unused tax credits under this program can be transferred and utilized under the Seed Capital for Innovation Centers program that has already utilized all of its $9 million aggregate cap.

However, while this proposal may result in an increase in utilization of the tax credits under this program, Oversight has already reflected the potential loss of revenue from this program up to the capped limit with the enabling legislation. Therefore, Oversight will assume this proposal will not have a fiscal impact upon the state more than what has already been reflected in the fiscal note for TAFP HB 1656 in 1998.

Officials from the **City of St. Louis** did not respond to our request for fiscal impact.

FISCAL IMPACT - State Government	FY 2004 (10 Mo.)	FY 2005	FY 2006
	$0	**$0**	**$0**

FISCAL IMPACT - Local Government	FY 2004 (10 Mo.)	FY 2005	FY 2006
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

Small businesses that can utilized these tax credit programs may be impacted as a result of this proposal.

DESCRIPTION

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

Relating to the Small Business Investment program, the proposal:

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

(5) 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.

Relating to the Rebuilding Communities program, the proposal:

(6) 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;

DESCRIPTION (continued)

(7) Allows the leasing of certain technology equipment to qualify as an expense for purposes of obtaining a tax credit;

(8) 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

(9) Allows any unused credits for this tax credit program from the previous year to be added to the Seed Capital for Innovation Centers program in future years.

Relating to the Seed Capital for Innovation Centers program, the proposal:

(10) 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;

(11) Modifies the definition of "qualified fund" to specify that distributions of equity from the fund to qualified economic development organizations at the statutory 10% rate shall be calculated after the amount the fund invested in the corporation or other similar entity is returned to the fund; and

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

The proposal 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

RAS:LR:OD (12/02)

Department of Economic Development
Department of Revenue
Department of Insurance
Office of Administration - Budget and Planning
City of Kansas City

NOT RESPONDING: City of St. Louis

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