COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2456-01
Bill No.: SB 740
Subject: Agriculture Department; Cooperatives; Tax Credits
Type: Original
Date: January 28, 2004

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Total Estimated Net Effect on General Revenue Fund	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Total Estimated Net Effect on All State Funds	**$0**	**$0**	**$0**

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

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Economic Development** and **Office of State Treasurer** assume the proposal will have no fiscal impact on their organization.

Officials from the **Department of Agriculture** state New Generation Cooperative Incentive Tax Credits are funded by General Revenue (GR). When the credits are redeemed against tax liabilities other than GR obligations, and those funds are held harmless, additional GR is required to satisfy both the credit redeemer and the obligation to other funds. While use of the credits against taxes levied in RSMo 143, 147 and 148 is currently allowed under law, usage against premium taxes has been minimal due to the inability to use the credits on a quarterly basis. Allowing purchases and redemptions of New Generation Cooperative Incentive Tax Credits will probably increase with the ability to utilize the credits on a quarterly basis. It is impossible to estimate the exact impact without knowing what holders will redeem credits against in a given tax year. Therefore, it is impossible to estimate the exact dollar amount that would be needed to offset the GR obligation.

Officials from the **Office of Administration - Division of Budget and Planning** state this proposal holds harmless the county treasurer and school district within a county where a domestic insurance company is located. This proposal would have a significant unknown impact on General Revenue.

ASSUMPTION (continued)

Officials from the **Department of Revenue (DOR)** provide the following assumptions related to the administrative impact of the proposal on their organization:

Corporate Tax -

Section 348.430 will allow the Agricultural Products Utilization Contributor tax credit to be used to offset quarterly estimated tax payments. DOR already allows this procedure; therefore, there is no fiscal impact. The section was also changed to allow the credit to be claimed in the initial year of contribution or in a carry-back year. The credit will no longer have to be utilized first in the year of contribution. This will be a change to DOR procedures. Changes to forms and programming will be needed.

Section 348.432 will allow the New Generation Cooperative Incentive tax credit to be used to offset quarterly estimated tax payments. DOR already allows this procedure; therefore, there is no fiscal impact. The section was also changed to allow the credit to be claimed in the initial year of contribution or in a carry-back year. The credit will no longer have to be utilized first in the year of contribution. This will be a change to DOR procedures. Changes to forms and programming will be needed.

It is estimated that 173 hours of programming ($5,771) will be needed to change the computer systems to handle the implementation of this proposal.

Insurance Tax -

Section 148.330.4 adds Agricultural Product Utilization Credit and New Generation Cooperative Credit to the list of Insurance Tax credits that will not affect the distribution amounts to the schools. In addition, now the county treasurers are also to be held harmless.

This will require programming to the Insurance Tax system both by DOR and the Division of Insurance. Forms will also need to be revised. Programming should be minimal or approximately 87 hours at a cost of $2,902.

Therefore, the DOR estimates the total fiscal impact of this proposal to be one-time programming and form changes costs of $8,673.

Oversight assumes the DOR could absorb these minimal costs within current funding levels.

ASSUMPTION (continued)

Officials from the **Department of Insurance (INS)** state currently the tax credits are allowed to be taken annually and are applied against the County Stock Fund. No funds collected in the county stock fund are deposited into General Revenue (GR). All funds are distributed to the county treasurer and school district in which the principal office of the company is located. This change shifts the liability of the tax credits to GR, which previously was not impacted by the redeemed credits against County Stock Funds.

In 2002, there were no agricultural, new generation cooperative or new generation processing entity tax credits taken against the County Stock Fund. In 2001, there were $303,633 in agricultural utilization credits taken by county stock companies. Legislation allows these tax credits to now immediately apply to three prior tax years. The INS anticipates, at a minimum, an amount equal to that used in 2001 would be used against prior tax years. This would create a tax liability to General Revenue of approximately $300,000, which had not been calculated before. The INS also anticipates that future tax burdens would be increased to General Revenue. It is anticipated that more entities would purchase and use these tax credits if allowed to take them against quarterly taxes. The fiscal impact is estimated at a range of $300,000 loss of revenue to GR to an unknown loss of revenue to GR. The State would also lose interest earned on premium tax collected through the year if credits are allowed on a quarterly basis.

The INS would require contract computer programming of $54,400 (640 hours @ $84/hour) to make modifications to the premium tax system so credits could be processed quarterly.

Oversight assumes this proposal has no net impact on the state since the proposal does not increase or reduce the amount of tax credits available. Also, **Oversight** assumes that a small number of insurance companies would claim the tax credits quarterly. INS could absorb costs related to this proposal by maintaining a manual or personal computer based system for the insurance companies that take the tax credits rather than reprogramming their system. Should more than a few insurance companies take the quarterly tax credit or should other existing premium tax credits be allowed to be taken quarterly, the INS could request additional funding through the appropriation process.

FISCAL IMPACT - State Government	FY 2005 (10 Mo.)	FY 2006	FY 2007
	$0	**$0**	**$0**

FISCAL IMPACT - Local Government	FY 2005 (10 Mo.)	FY 2006	FY 2007

	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

This proposal could fiscally impact those cooperatives that are eligible for the tax credit.

DESCRIPTION

This proposal makes changes to subsection 4 of Section 148.330, RSMo, with regard to holding both schools and counties harmless for the apportioned moneys from the county stock insurance fund.

This proposal allows contributors to take the tax credits for new generation cooperatives and new generation processing entities on a quarterly basis.

This proposal clarifies that the premium tax credits permitted in Sections 348.430 and 348.432, RSMo, shall only be subtracted against the general revenue fund and not against the county stock insurance fund. Tax credits may be carried back to any of the contributor's three prior tax years.

The proposal decreases the required number of employees in an employee-qualified capital project from 100 to 60 for investors to receive a New Generation Cooperative Incentive Tax Credit.

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

HWC:LR:OD (12/02)

Department of Agriculture
Office of Administration -
Division of Budget and Planning
Department of Economic Development
Department of Revenue
Department of Insurance
Office of State Treasurer

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