COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2456-03
Bill No.: SCS for SBs 740, 886, and 1178
Subject: Agriculture Department; Cooperatives; Tax Credits
Type: Original
Date: February 25, 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 7 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 Agriculture, Missouri Department of Conservation, Office of State Treasurer** and **Department of Natural Resources** assume the proposal will have no fiscal impact on their organizations.

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** state the proposal holds harmless the county treasurer and school district within a county where a domestic insurance company is located. In its current form, the proposal does not include appropriation of general revenue needed to hold the County Stock Fund harmless. Additionally, quarterly filing could have a negative impact on general revenue.

348.406: Agricultural Product Utilization Business Development Loan Program, increases from twenty-five percent to fifty percent the amount of first loss guarantee to a lender for loans made to eligible borrowers. It also reduces from forty percent to twenty percent the amount of reserve the state is required to have on hand to cover any losses from defaults. There is no fiscal impact to the state as long as there are no loan defaults. Loans defaults could increase the state's liability. Missouri is processing its first default in February 2004.

348.430.4: Allows New Generation Cooperative Tax Credits and Agricultural Product Utilization Tax Credits to be carried-back three years in addition to current law which allows a five year carry-forward. These provisions could negatively impact general revenue.

ASSUMPTION (continued)

Oversight assumes the proposal has no net impact on the state with respect to the carry-back provisions of the New Generation Cooperative Tax Credits and Agricultural Product Utilization Tax Credits since it does not increase or reduce the amount of tax credits available.

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.

Officials from the **Office of the Secretary of State (SOS)** state this proposal modifies various sections pertaining to agriculture programs. Based on experience with other divisions, the rules, regulations and forms issued by the Department of Agriculture could require as many as 15 pages in the *Code of State Regulations*. For any given rule, roughly one-half again as many pages are published in the *Missouri Register* as are published in the Code because cost statements, fiscal notes and notices are not published in the Code. The estimated cost of a page in the *Missouri Register* is $23.00. The estimated cost of a page in the *Code of State Regulations* is $27.00. The

ASSUMPTION (continued)

actual costs could be more or less than the numbers given. The fiscal impact of this legislation in future years is unknown and depends upon the frequency and length of rules filed, amended, rescinded and withdrawn. The SOS estimates the cost of this legislation to be $911 [(15 pp x $27) + (22 pp x $23)].

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process. Any decisions to raise fees to defray costs would likely be made in subsequent fiscal years.

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

No direct fiscal impact to small businesses would be expected as a result of this proposal.

DESCRIPTION

This proposal pertains to agriculture programs. A brief breakdown of the proposal is as follows:

SECTION 148.330 - AGRICULTURAL TAX CREDITS - This proposal makes changes to subsection 4 of Section 148.330, RSMo, primarily putting the county stock insurance fund back into General Revenue, and then holding both schools and counties harmless with 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.

DESCRIPTION (continued)

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.

SECTIONS 261.115 TO 261.289 - GROWERS DISTRICTS - This proposal creates voluntary districts for individuals who are owners or operators of land used in the cultivation of commercial crops within the physical boundaries of the district.

This proposal establishes organizational requirements, rights, and responsibilities for the grower districts.

SECTION 265.475 - Changes various provisions relating to meat inspection programs.

SECTIONS 348.406 to 348.410 - AGRICULTURAL BUSINESS DEVELOPMENT LOAN PROGRAM - This proposal allows the Missouri Agricultural and Small Business Development Authority (MASBDA) to issue certificates of guaranty covering a first loss up to but not more than fifty percent for eligible borrowers. This proposal states that outstanding guaranteed loans shall at no time exceed an amount which would allow immediate redemption of twenty percent of the outstanding loans guaranteed by the fund at any one time.

SECTIONS 348.430 to 348.432 - Changes various provisions relating to agricultural tax credits.

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 Agriculture
Office of Administration -
    Division of Budget and Planning
Department of Natural Resources
Department of Revenue
Department of Insurance
Missouri Department of Conservation
Office of Secretary of State
Office of State Treasurer

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Director
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