COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3187-01
Bill No.: SB 831
Subject: Taxation and Revenue; Economic Development; Business and Commerce.
Type: Original
Date: February 2, 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 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 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 Insurance** assume that since the total tax credit limits have not changed, the proposal will not have a fiscal impact on their agency.

Officials from the **Office of Administration - Budget and Planning (BAP)** state the proposed legislation should not result in additional costs or savings to their agency. The legislation makes changes to the Capital Small Business Investment, Rebuilding Communities, and the Seed Capital tax credit programs. The Capital Small Business Investment and Seed Capital tax credit programs both have cumulative caps, which have been exhausted according to the Department of Economic Development. Therefore due to the exhausted cumulative caps, it is unknown the exact fiscal impact these changes will have on the state. BAP defers to the Department of Economic Development.

This proposal also decreases the number of employees that a business must have in a distressed community to receive the tax credit, and it also increases the maximum amount of employees a business can have before becoming ineligible for the tax credit. These changes made to the Rebuilding Communities may have a negative fiscal impact on Total State Revenue and General Revenue.

ASSUMPTION (continued)

Officials from the **Department of Revenue - Division of Taxation (DOR)** state they do not anticipate the changes to the current statutes to have a significant impact on the amount of taxpayers claiming the credits. Therefore, DOR will not request FTE at this time. However, if the number of additional credits is larger than expected, DOR would need one Tax Processing Tech I for every 15,000 personal taxpayers claiming the credit and one for every 3,680 business taxpayers claiming the credit. These employees would maintain the certification of the credits and verify the amounts on the returns as claimed by the taxpayers.

Officials from the **Department of Economic Development**, **City of Kansas City** and the **City of St. Louis** did not respond to our request for fiscal impact.

In response to a similar proposal from last year, officials from the **Department of Economic Development (DED)** stated the proposal makes the following changes;

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 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 stated 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

ASSUMPTION (continued)

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 2002 DED authorized approximately $5.5 million in credits, and approximately $3.4 million in credits were 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 assumed that no additional personnel or equipment are needed at present as a result of this proposal. DED assumed the fiscal impact to the state is from $0 to $5 million.

Oversight assumes that since the proposal does not change the cumulative cap or the annual cap of the three tax credit programs, Capital Tax Credit (Sections 135.400 - 135.423), Rebuilding Communities (Section 135.535) and Seed Capital Credit (Section 348.300 and 348.302) the proposal will not result in additional fiscal impact to the state other than what has already been reflected in prior fiscal notes.

Oversight assumes that since the cumulative cap of $13 million for the Capital Tax Credit program (Sections 135.400 - 135.430) has already been exhausted, changes to the program will not result in additional tax credits being issued.

Oversight also assumes changes to the Rebuilding Communities tax credit program (Sections 135.530 - 135.535) may result in increased utilization of the tax credit program. According to DED, for FY 2003, only $3.3 million of the available $10 million in tax credits were issued in FY 2003. Also according to DED, $2.3 million of the tax credits were redeemed in FY 2003. Therefore, changes to this program in the proposal may increase the **utilization** of these tax credits (especially since with this proposal any unused tax credits under this program can be utilized in the Seed Capital Credit program), however, the annual cap of the Rebuilding Communities program tax credits remains at $10 million. Oversight had previously reflected the loss to state funds of up to $10 million with the enabling legislation of the Rebuilding Communities tax credit program.

Oversight also assumes that since the cumulative cap of $9 million for the Seed Capital Credit program (Sections 348.300 - 348.318) has already been exhausted, changes to the program will not result in additional tax credits being issued.

This proposal may reduce Total State Revenues.

FISCAL IMPACT - State Government	FY 2005	FY 2006	FY 2007
	$0	**$0**	**$0**

FISCAL IMPACT - Local Government	FY 2005	FY 2006	FY 2007
	$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.

In regards to the Capital Tax Credit program, the proposal:

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

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

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

(4) Reduces the time period requirement for investment in a small business from five years to three 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.

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DESCRIPTION (continued)

In regards to the Rebuilding Communities tax credit program, the proposal:

(1) 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;

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

(3) Allows any unused credits for these tax credit programs from the previous year to be added to the Seed Capital Credit program for the next year.

In regards to the Seed Capital Credit program, the proposal:

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

(2) 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

(3) 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.

The proposal also 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 also removes one of the two Section 135.535's that are in the statutes.

This 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

Department of Revenue
Department of Insurance
Office of Administration - Budget and Planning

NOT RESPONDING: Department of Economic Development; City of Kansas City, City of St. Louis

Mickey Wilson

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Director
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