COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3188-02
Bill No.: SB 711
Subject: Taxation and Revenue; Tax Credits; Revenue Department; Economic Development.
Type: Original
Date: March 2, 2004

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
General Revenue	($92,340)	$0	$0
Total Estimated Net Effect on General Revenue Fund	**($92,340)**	**$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 8 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	**(Unknown)**	**(Unknown)**	**(Unknown)**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **State Tax Commission**, **Department of Transportation**, **Department of Agriculture**, **Office of the Attorney General**, **Office of the Secretary of State**, **Office of the State Courts Administrator**, **Department of Labor and Industrial Relations**, **Office of Administration - Divisions of Accounting** and **Budget and Planning** each state this proposal would have no fiscal impact on their respective agencies.

Officials from the **Office of the State Treasurer (STO)** state Section 620.1670.5 states that recipients corporations that fail to provide information or access required by this bill shall be subject to a fine. Two percent of the fines shall be remitted to the state treasurer and credited to each of the departments equally for the purpose of administering the provisions of sections 620.1650 to 620.1690.

STO states that if they are to collect the money, they will require 1 FTE Accounting Analyst I (at $28,044 per year) plus expense and equipment. STO assumes the total cost of the new FTE would be roughly $43,000 per year.

Oversight assumes the quantity of economic benefit recipients required to pay the stated fines would not be large, and therefore, assume the STO could handle the additional responsibilities with existing resources.

ASSUMPTION (continued)

Officials from the **Department of Economic Development (DED)** did not respond to our request for fiscal impact.

In response to a similar proposal from last year, DED assumed an unknown but significant amount of costs to implement the proposal. In the similar proposal from last year, DED and the Department of Revenue shared the responsibility of accumulating the information and preparing the specified reports. In this proposal, the Department of Revenue has the responsibility of putting together information regarding tax credits. **Oversight** assumes DED would incur some additional expenses, but without their response, Oversight has no idea how much in additional expenses will be incurred by DED, and assume DED could absorb the costs within their existing budget.

Officials from the **Department of Revenue (DOR)** state the proposal would have the following fiscal impact on their Divisions:

Corporate Tax

Taxation would have to create reports from the COINS system that tracks every credit, abatement, exemption and reduction in tax. This would require some additional programming to issue such reports. It is estimated that 692 hours of programming (2 programmers for 2 months) would be needed at a cost of $23,085.

Withholding Taxes

Taxation would have to create reports from the Withholding Tax System that tracks every credit, abatement, exemption and reduction in tax. This requires programming. It is estimated to need 692 hours of programming (2 programmers 2 months) at a cost of $23,085.

Personal Tax

Taxation would have to create reports from the MINITS system to tracks every credit, abatement, exemption and reduction in tax. This requires programming. It is estimated that 1,384 hours of programming (2 programmers for 4 months) would be needed at a cost of $46,170.

ASSUMPTION (continued)

Sales Tax

DOR assumes that the only reporting required for sales tax will be the sales taxes within a TIF area. Therefore there will be no impact to sales tax. If DOR is incorrect in this assumption and will be required to collect and report data on all 115 sales tax exemptions, then the following impact will be needed:

If this legislation includes the reporting of these exemptions, DOR will have to do major programming to the MITS system. It is estimated that 6,228 hours of programming (6 programmers 6 months) at a cost of $207,766 would be needed. There would also be increased costs to process and to correctly capture the detail exemption information on all sales/use tax returns filed. Business Tax would need 3 Office Support Assistance (clerical) and 12 Tax processing Tech's to handle this legislation. DOR will also have additional printing costs associated with this legislation to issue return at $95,000 and additional postage of $100,000.

Since DOR will be required to handle the duties outlined in this legislation, they will need to have a person that can compile the necessary information from all tax systems and maintain and report the required reporting to the legislature. Since this a complicated reporting and involves all tax areas that allow exemptions and credits, a Management Analyst Specialist located in DOR would be required for this function.

With these assumptions, DOR assumes they will need a total of $92,340 in programming expenses in FY 2005 to comply with the proposal.

Oversight also assumes this proposal would result in additional work for the local political subdivisions to collect the necessary information and submit it to DOR. Oversight estimates this additional expense to be (Unknown) statewide.

FISCAL IMPACT - State Government	FY 2005 (10 Mo.)	FY 2006	FY 2007
GENERAL REVENUE			
Costs - Department of Revenue			
Programming expenses	($92,340)	$0	$0

ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	**($92,340)**	**$0**	**$0**

FISCAL IMPACT - Local Government	FY 2005 (10 Mo.)	FY 2006	FY 2007
LOCAL POLITICAL SUBDIVISIONS			
Costs - Gather information, prepare reports and submit to state agencies.	(Unknown)	(Unknown)	(Unknown)
ESTIMATED NET EFFECT TO LOCAL POLITICAL SUBDIVISIONS	**(UNKNOWN)**	**(UNKNOWN)**	**(UNKNOWN)**

FISCAL IMPACT - Small Business

Small businesses that receive economic incentives could be impacted by this proposal if they are required to submit information and/or pay a fine.

DESCRIPTION

This proposal implement various provisions for job creation and fiscal accountability. A section by section summary follows:

SECTION 620.1650 - Definitions

SECTION 620.1566 - An interagency task force (defined) must submit a report to the General Assembly are report within three weeks of the start of session. The report must include:

(1) Uncollected revenue from every tax credit, abatement, exemption and reduction provided by the state or a local government;

(2) The name of any taxpayer who claimed such tax break over $5,000;

(3) An aggregate summary of tax breaks that were less than $5,000;

(4) All state appropriated expenditures for economic development, including departmental

budgets.

SECTION 620.1660 - The proposal requires an annual report to the Department of Revenue (DOR) from each property taxing entity in the state that has property that has received any kind

DESCRIPTION (continued)

of property tax abatement or reduction. The report will detail the property at issue and the amount of the tax break.

The proposal requires municipalities that collect sales and other economic activity taxes to submit an annual report to the DOR that details the amount of money deposited in a special allocation fund for the purposes of tax increment financing (includes sales and other economic activity taxes as well as payments in lieu of tax).

All of the above reports collected by the DOR will be published annually. Failure to submit a report after a three month warning and then an additional five month period will result in withholding of any future development subsidy to the delinquent political subdivision until the report is filed.

SECTION 620.1655 - When requesting a development study a granting body will complete an application for the subsidy which will include certain basic information plus the following highlights:

(1) The number of individuals employed by the applicant at the project site and at the applicant's parent corporation's site;

(2) The subsidies being applied for and their respective values;

(3) The number of new jobs to be created;

(4) A list of community economic benefits to result from the project;

(5) A list of development subsidies already received and any public investments already made or to be made;

(6) A statement of whether the development will reduce or reassign employment as a result of any restructuring of the parent company; and

(7) A certification by the chief officer of the applicant as to the accuracy of the application.

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If the granting body approves the application it will submit the application to the DOR.

SECTION 620.1670 - The granting body will submit a progress report with the DOR annually. The report will contain basic information plus follow up information to compare the predictions

DESCRIPTION (continued)

from the above application with the actual results from being provided the development subsidy. The details of this report are enumerated in the act.

Granting bodes and the recipient corporations shall file annual progress reports for the duration of the subsidy, but at least for five years.

SECTION 620.1675 - A granting body shall not award a development subsidy if the cost per job is greater than $35,000.

SECTION 620.1680 - On the two year anniversary of the project the granting body shall file a report wherein it shall indicate whether the corporate parent has maintained ninety percent of its employment in the state.

The proposal requires that the recipient corporation fulfill its job creation and wage requirements for the project site within two years of the subsidy and maintain such goal for the duration of the subsidy, but at least for five years. The corporate parent must maintain at least ninety percent of its employment in the state as long as the development subsidy is in effect, but for at least five years.

Failure to meet these requirements will cause the granting body to recapture a portion of the development subsidy. Failure to meet the above employment requirements for three consecutive years will result in loss of the subsidy. After losing the subsidy, the recipient corporation will refund all remaining value of the subsidy to the granting body.

SECTION 620.1690 - Enforcement of the provisions of this proposal will be available to any income taxpayer or organization representing taxpayers in the state. Attorney's fees are granted to such prevailing plaintiff.

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 Agriculture
Department of Labor and Industrial Relations
Department of Transportation
State Tax Commission
Office of the State Treasurer
Office of the Secretary of State
Office of Administration
Office of the State Courts Administrator
Office of the Attorney General

NOT RESPONDING: Department of Economic Development

Mickey Wilson

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Director
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