

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 3665-08  
Bill No.: Perfected SS for SCS for SB 1099  
Subject: Taxation and Revenue; Tax Credits; Economic Development Department;  
Revenue Department.  
Type: Original  
Date: February 18, 2004

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**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
<b>FUND AFFECTED</b>	<b>FY 2005</b>	<b>FY 2006</b>	<b>FY 2007</b>
General Revenue	(\$265,723)	(\$132,259)	(\$135,626)
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>(\$265,723)</b>	<b>(\$132,259)</b>	<b>(\$135,626)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2005</b>	<b>FY 2006</b>	<b>FY 2007</b>
Insurance Dedicated	(Unknown)	(Unknown)	(Unknown)
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>(Unknown)</b>	<b>(Unknown)</b>	<b>(Unknown)</b>

Numbers within parentheses: ( ) indicate costs or losses.  
This fiscal note contains 10 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

## FISCAL ANALYSIS

### ASSUMPTION

Officials from the **Department of Transportation, Department of Labor and Industrial Relations** and the **Office of the Attorney General** each assume the proposal would not fiscally impact their respective agencies.

In response to a previous version of this proposal, officials from the **Coordinating Board of Higher Education** and the **Office of the State Auditor** each assumed the proposal would not fiscally impact their respective agencies.

Officials from the **Department of Revenue (DOR)** have revised their response to the Tax Credit Accountability Act to assume the following impact;

Applicants will be required to get a tax clearance from DOR and Insurance before a tax credit will be authorized. This will greatly increase the number of tax clearance requests. DOR will have to process a tax clearance on each tax credit applicant. This will be a manual process and will take 1 Tax Processing Tech to handle the process.

Reporting requirements are due June 30th of each year and penalties apply if the information is not submitted. Once the taxpayer has failed to report for six months, DOR is to add any penalty

ASSUMPTION (continued)

to the applicant's income tax liability. This will require programming changes in the MINITS and COINS systems. It is estimated that it will take 6 programmers 2 months or 2,076 hours of programming at a cost of \$69,255 for the MINITS system and it will take 6 programmers 2 months or 2,076 hours of programming at a cost of \$69,255 to modify the COINS system.

DOR states that form changes will be required, but will be absorbed through existing resources.

Customer Assistance anticipates calls and walk-ins to the Tax Assistance Centers. DOR assumes the number of calls or walk-ins will not be significant. However, if DOR is incorrect in this assumption, it will need one Tax Collection Tech, plus supportive equip, for every 15,000 calls a year to 751-7200 delinquent line due to penalties assessed on tax credits, and one Tax Processing Tech for 5,200 additional calls to the offices and one Tax Processing Tech for every 2,150 additional walk-ins. Any FTE's will be requested through the normal budget process.

DOR assumes that they will not be the sole tracker of the tax credits, except for the credits administered by DOR. DOR's only role in the tax credit tracking systems will be to provide redemption amounts for tax credits. If DOR is incorrect in this assumption, then the department may incur additional impact.

In response to a previous version of this proposal, officials from the **Office of Prosecution Services** assumed any costs resulting from this proposal could be absorbed by existing resources.

Officials from the **Department of Economic Development (DED)** state they would ensure receipt of annual reports from recipients of DED credits or projects benefitting from DED credits, as applicable. This would result in the receipt of 1000 - 4650 reports annually. DED expects a number of delinquencies as well. DED would have one person responsible for monitoring receipt of reports and sending "late notices" as well as preparing referrals for DOR or INS for imposition of penalties. DED would absorb costs of revision of tax credit applications to accommodate new information required for any application. DED would need some funding to cover mailing costs of sending delinquency notices. The DED Client Management System (CMS) would have to be modified to include the additional information from applications. The CMS would also need to be programmed to track reporting and identify non-filers as well as issue required notifications to non-filers. DED would be able to accomplish this with the addition of an Executive II and .10 FTE of a Computer Info Tech Specialist II.

DED states this version of the bill adds 135.825 RSMo., which requires DED to work with DOR to implement a system to track Tax Credits. DED assumes the current Client Management System (CMS) already used would be sufficient to satisfy this requirement for interface with

ASSUMPTION (continued)

DOR. The addition of 610.255 RSMo. to the bill requires that tax credit application records be declared open records. Costs would be offset by charging for records but the FTE and budget funding would need to be included in the DED budget. One FTE at 1/2 time (Executive II at \$36,612 annually) would be requested. The addition of 620.017 which was basically SB 973 (FN 2801-02) would not entail any additional requested funding. The change imposes some additional duties on DED with regard to capturing information on tax credits and grants. DED would also be required to do a report to the President Pro tem of the Senate and the Speaker of the House. DED feels changes can be incorporated into existing programs and the report can be prepared from information already gathered. If this change require more work than anticipated, a budget request could be submitted in the future. The changes added in 620.1655 require DED to participate with other agencies as a part of the Interagency Task Force, convened by Commissioner of Administration, to prepare an annual unified development report. DED anticipates funding to publish the report would be requested as part of the OA Budget.

DED assumed total cost from complying with this proposal to be roughly \$115,000 per year.

**Oversight** assumes DED would not need additional floor space for the requested FTE.

Officials from the **Department of Insurance (INS)** state this legislation may require their agency to collect additional information from insurers taking tax credits. INS would be required to compile and report annually on tax credits administered by their agency. INS assumes additional workload could be accomplished with existing staff for reporting on their tax credits, but if additional workload is required to assist other agencies (DED, DOR, AG) who administer tax credits which are used by insurance companies, then additional resources may need to be requested. INS also states additional resources may also be required to implement a system in conjunction with DOR to track issued and redeemed tax credits. Insurance companies redeem numerous tax credits administered from other agencies and transferring this information into a DOR system may require additional staff and/or contract computer programming to allow the two systems to interchange the data. Costs are unknown at this time.

INS states they are not included in the Interagency Development Task Force, but if required to participate by conducting cost benefit analysis, uncollected revenue analysis, and assist in compiling reports, additional staff may be required.

In summary, INS assumes an unknown cost to the Insurance Dedicated Fund.

In response to a previous version of this proposal, officials from the **Department of Agriculture** stated the additional costs of reporting and monitoring will be assessed against application fees

ASSUMPTION (continued)

collected.

Officials from the **Department of Social Services** assumed they would incur additional expenses under \$100,000 as a result of the additional paperwork involved with the new reporting requirements for the Maternity tax credit program.

**Oversight** assumes the Department of Social Services will, like various other tax credit administering state agencies, be able to absorb the additional paperwork created by this proposal with existing resources.

Officials from the **Department of Public Safety (DPS)** states by establishing the Tax Credit Accountability Act, DPS must determine through the DOR and INS if a tax credit applicant owes the state taxes, and if so, shall offset the amount owed against the credit. If any credit remains, that amount may be issued to the applicant.

DPS assumes the need for one FTE Clerk Typist III (at \$23,784 annually) in the verification of tax credit applications with DOR as well as prepare correspondence to individuals that do not qualify for tax credits. DPS assumes the cost of the FTE, plus fringe benefits and expense and equipment will cost roughly \$38,000 per year.

Oversight assumes the Department of Revenue and Department of Insurance will develop a process with the various tax credit administering agencies to verify whether potential tax credit recipients have taxes that are past due, similar to the provisions of HB 600 from 2003. Therefore, Oversight assumes DPS will not incur additional expense as a result of the proposal.

In response to a previous version of this proposal, officials from the **Department of Natural Resources (DNR)** stated the Historic Preservation Tax Credit program is administered by DED with DNR/SHPO providing technical review of historic eligibility and review of proposed rehabilitation work to ensure compliance with the Secretary of the Interior's Standards. The added accountability requirements will be the responsibility of DED and should have no direct fiscal impact on DNR's review role in administration of the Historic Preservation Tax credits.

In response to a previous version of this proposal, officials from the **Office of Secretary of State (SOS)** assumed there would be costs due to additional publishing duties related to various department's authority to promulgate rules, regulations, and forms. SOS estimated the divisions could require approximately 28 new pages of regulations in the Code of State Regulations at a cost of \$27.00 per page, and 42 new pages in the Missouri Register at a cost of \$23.00 per page. Costs due to this proposal are estimated to be \$1,722, however, the actual fiscal impact would be

ASSUMPTION (continued)

dependent upon the actual rule-making authority and may be more or less. Financial impact in subsequent fiscal years would depend entirely on the number, length, and frequency of the rules filed, amended, rescinded, or withdrawn. SOS does not anticipate the need for additional staff as a result of this proposal, however, the enactment of more than one similar proposal may, in the aggregate, necessitate additional staff.

**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.

**Oversight** also assumes the provisions in the proposal regarding verifying with the Department of Revenue and the Department of Insurance for outstanding taxes prior to issuing tax credits, may result in a savings to the state. If an applicant has a past due balance for sales taxes, income taxes or insurance premium taxes, the state could potentially save money by verifying the balance due and netting it to the tax credit issuance.

Officials from the **Office of Administration** did not respond to our request for fiscal impact.

<u>FISCAL IMPACT - State Government</u>	FY 2005 (10 Mo.)	FY 2006	FY 2007
<b>GENERAL REVENUE</b>			
<u>Costs - Department of Revenue (DOR)</u>			
Personal Service (1 FTE)	(\$18,614)	(\$22,895)	(\$23,468)
Fringe Benefits	(\$7,706)	(\$9,479)	(\$9,716)
Expense and Equipment	(\$7,082)	(\$531)	(\$547)
Programming expenses	<u>(\$138,510)</u>	<u>\$0</u>	<u>\$0</u>
Total Costs - DOR	<u>(\$171,912)</u>	<u>(\$32,905)</u>	<u>(\$33,731)</u>

<u>FISCAL IMPACT - State Government</u>	FY 2005 (10 Mo.)	FY 2006	FY 2007
<u>Costs - Department of Economic Development (DED)</u>			
Personal Service (1.5 FTE)	(\$46,909)	(\$57,698)	(\$59,141)
Fringe Benefits	(\$19,420)	(\$23,887)	(\$24,484)
Expense and Equipment	(\$22,499)	(\$11,640)	(\$11,988)
Programming expenses	(\$4,983)	(\$6,129)	(\$6,282)
Total Costs - DED	<u>(\$93,811)</u>	<u>(\$99,354)</u>	<u>(\$101,895)</u>
<b>ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND</b>	<b><u>(\$265,723)</u></b>	<b><u>(\$132,259)</u></b>	<b><u>(\$135,626)</u></b>

#### **INSURANCE DEDICATED FUND**

<u>Costs - Department of Insurance</u>			
Costs to administer various aspects of Tax Credit Accountability proposal	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
<b>ESTIMATED NET EFFECT TO THE INSURANCE DEDICATED FUND</b>	<b><u>(UNKNOWN)</u></b>	<b><u>(UNKNOWN)</u></b>	<b><u>(UNKNOWN)</u></b>

<u>FISCAL IMPACT - Local Government</u>	FY 2005 (10 Mo.)	FY 2006	FY 2007
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

#### FISCAL IMPACT - Small Business

Small businesses that apply for and receive Missouri tax credits will need to provide additional information at the application stage as well as annual reporting after the tax credit has been issued.

## DESCRIPTION

This proposal makes various changes to the various Missouri tax credits. The proposal:

(1) Establishes a system of classifications for tax credits and minimum requirements for each classification. The requirements are designed to verify compliance and instill confidence in the tax credit system, but avoid undue burdens on the individuals and businesses who apply for the credits.

The proposal follows established classifications and application requirements where possible. The administering state agencies are enabled to implement rules to include additional requirements or explain the listed requirements. Any such rules are subject to the standard rules promulgation and approval requirements.

(2) Implements reporting requirements focused on gathering meaningful information in order to assist future legislatures in assessing the value of tax credit programs. The reporting requirements are varied to reflect the diverse landscape of the currently enacted tax credits.

The requirements reflect differences between economic development credits and social benefit credits that have benefits that are not revealed in the same empirical fashion. Reporting occurs over a period of three years for most credits. Annual reporting is fixed to a date certain (June 30) for all reports.

Reporting is the duty of the recipient of the credit, and not any subsequent purchaser, in the case of a transferred credit. An exception to this is made in the case of contribution based credits. These credits are obtained differently from other credits. Contribution based credits are given to the contributor who donates money to a specific program. The state policy is the promotion of the program, and thus reporting is the duty of the recipient of the contribution and not the recipient of the credit. Additionally, the proposal requires that a taxpayer receiving a credit be made aware of the future reporting requirements prior to issuance.

(3) Implements a compliance system for reporting. Failure to meet the annual reporting requirements will result in graduated penalties. A six month grace period and at least one notice by certified mail to the last known address of the taxpayer is included. Penalties also accompany fraud in the application process. If fraud is found by a court of competent jurisdiction, a one hundred percent penalty will be incurred.

Penalties are assessed against a noncompliant taxpayer as of the end of the taxpayer's taxable year and due and owing as of the last date of filing of the taxpayer's return. Further collection procedures follow the existing collection procedures for income taxes.

DESCRIPTION (continued)

(4) Requires that prior to approval of any tax credit application, an administering agency shall verify through the department of revenue and the department of insurance that the tax credit applicant does not owe any delinquent taxes, including penalties and interest. Such delinquency will not affect the approval of the application for such tax credits, except that the amount of credits issued are reduced by the applicant's tax delinquency.

(5) Requires tax credit administering agencies, in cooperation with the Department of Revenue to implement a system for tracking the amount of tax credits issued and redeemed. Any agency may promulgate rules for its implementation.

(6) Specifies when applications for tax credits are considered to be open records.

(7) Expands the existing audit statutes for state sponsored cost benefit analysis to require periodic examination of all credits. Current law only subjects credits administered by the Department of Economic Development to be analyzed. All audits are required to be provided to the governor, the legislature and, specifically, the Joint Committee on Tax Policy.

(8) Charges the Joint Committee on Tax Policy with an automatic review by the committee after each of the Auditor's tax credit program audits. After this period of review, the committee is given the option to make an official recommendation to the General Assembly as to the merit and suggested future treatment of each credit.

(9) Requires additional information when the Department of Economic Development enters into an agreement with a party to provide grants, loans, tax credits or other financial assistance to the party through a program administered by DED. Included in the additional information is the financial obligation of the party if the requirements of the agreement are not met, as well as any other financial assistance received by the party for the same project.

The Department of Economic Development must prepare an annual report to the President pro tem of the Senate and the Speaker of the House of Representatives that contains certain information about the economic incentives administered in the past year.

(10) An "interagency development task force"(which is comprised of the fiscal officers of the state departments of agriculture, economic development, labor and industrial relations, revenue, natural resources, and transportation) must submit an annual report to the legislature detailing all direct expenditures made to stimulate economic development within the state during the previous fiscal year. The report must also contain information regarding the amount of uncollected state tax revenues as well as all state appropriated expenditures for economic development.

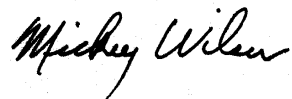
DESCRIPTION (continued)

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 Economic Development  
Office of the State Auditor  
Department of Revenue  
Department of Insurance  
Coordinating Board of Higher Education  
Department of Agriculture  
Department of Public Safety  
Department of Natural Resources  
Department of Social Services  
Office of the Secretary of State  
Office of the Attorney General  
Office of the Prosecution Services  
Department of Labor and Industrial Relations  
Department of Transportation

**NOT RESPONDING: Office of Administration**



Mickey Wilson, CPA  
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February 18, 2004