COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.:	4259-01
Bill No.:	SB 1337
Subject:	Business and Commerce; Economic Development; Taxation and Revenue.
Type:	Original
Date:	March 15, 2004

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
General Revenue	($132,299 to ($3,201,676)	($68,634 to $3,137,666)	($70,410 to $3,141,190)
Total Estimated Net Effect on General Revenue Fund *	**($132,299 to $3,201,676)**	**($68,634 to $3,137,666)**	**($70,410 to $3,141,190)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Insurance Dedicated	($3,600)	$0	$0
Total Estimated Net Effect on Other State Funds *	**($3,600)**	**$0**	**$0**

*** The fiscal impact of the tax credits could be divided between the General Revenue Fund and the County Foreign Insurance Fund and the County Stock Insurance Fund (both of which ultimately go to local school districts) if some of the tax credits are utilized against insurance premium taxes.**

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**

*** The fiscal impact of the tax credits could be divided between the General Revenue Fund and the County Foreign Insurance Fund and the County Stock Insurance Fund (both of which ultimately go to local school districts) if some of the tax credits are utilized against insurance premium taxes.**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration - Budget and Planning** state the proposal should not result in additional costs or savings to their agency. It will, however, decrease total state revenue and general revenue by up to $3 million annually.

Officials from the **Office of Secretary of State (SOS)** assume there would be costs due to additional publishing duties related to the Department of Revenue's authority to promulgate rules, regulations, and forms. SOS estimates the department could require approximately 10 new pages of regulations in the Code of State Regulations at a cost of $27.00 per page, and 15 new pages in the Missouri Register at a cost of $23.00 per page. Costs due to this proposal are estimated to be $615, however, the actual fiscal impact would be 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.

ASSUMPTION (continued)

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.

Officials from the **Department of Insurance (INS)** state it is unknown how many insurance companies and to what extent they may take advantage of the new tax credit program. INS estimates a loss of premium tax revenue from $0-$3 million. Premium tax revenue is split 50/50 between General Revenue and the County Foreign Insurance Fund or the County Stock Insurance Fund for domestic stock property and casualty companies. County Foreign and County Stock funds are later distributed to school districts. INS would require 43 hours of one time contract computer programming at a cost of $3,600 to add the new tax credit into the premium tax database.

Officials from the **Department of Revenue (DOR)** state this bill has the following fiscal impact on their agency. Within Corporate Income Tax, forms and programming changes will be required. One additional FTE will be needed if DOR is responsible for ensuring that the businesses applying for the credit are registered with the Secretary of State and ensuring that the cap is not exceeded. COINS programming is estimated to be 692 hours at a cost of $23,085.

Within Personal Tax, if this does flow through to individuals, MINITS will need to be modified to allow for the credit. It is estimated that 1,384 hours of programming will be needed at a cost of $46,170. Personal tax will need 1 Tax Processing Tech I for every 3,000 credits claimed.

In summary, DOR assumes a cost of $138,632 in the first year, and roughly $70,000 in costs each year thereafter for the two FTE and programming expenses.

Officials from the **Department of Economic Development (DED)** state this proposal is similar in some ways to new/expanding business facility or enterprise zone programs which award tax credits to new or expanding businesses.

DED assumes they will be required to review and approve applications for tax credits. DED assumes there will be a minimum of 600 applications annually (600 x $5,000 max credit = $3 million limit). More credit applications could be received because the amount claimed could be less than $5,000. DED would send notification of credits issued to DOR and DOR would look for the credits on the tax returns as they are filed. Verification of employees would need to be done. It is unclear if this would be a DED or DOR function.

ASSUMPTION (continued)

DED assumes the need to for one Economic Development Incentive Specialist II (at $38,088 annually) to receive, review, and approve tax credit applications. This person would also coordinate and promote the program. DED assumes the full $3 million in credits would be used each year. DED assumes this additional FTE to cost roughly $70,000 per year.

Oversight assumes DED will not pay for additional floor space for the requested FTE.

Oversight has ranged the fiscal impact to the Department of Revenue from the two requested FTE not being required (if the new FTE within DED could perform the listed duties) to the two additional FTE being necessary. Oversight has listed the programing expenses as cost that DOR will incur.

This proposal will decrease Total State Revenue.

FISCAL IMPACT - State Government	FY 2005 (10 Mo.)	FY 2006	FY 2007
GENERAL REVENUE			
Costs - Department of Revenue (DOR)			
Personal Service (0 to 2 FTE)	$0 to ($37,228)	$0 to ($45,790)	$0 to ($46,935)
Fringe Benefits	$0 to ($15,412)	$0 to ($18,957)	$0 to ($19,431)
Expense and Equipment	$0 to ($16,737)	$0 to ($4,285)	$0 to ($4,414)
Programming	($69,255)	$0	$0
Total Costs - DOR	($69,255 to $138,632)	$0 to ($69,032)	$0 to ($70,780)
Costs - Department of Economic Development (DED)			
Personal Service (1 FTE)	($32,534)	($40,016)	($41,017)
Fringe Benefits	($13,469)	($16,567)	($16,981)
Expense and Equipment	($17,041)	($12,051)	($12,412)
Total Costs - DED	($63,044)	($68,634)	($70,410)
Loss - 5 percent tax credit for new revenue of a new or expanded business	$0 to ($3,000,000)	$0 to ($3,000,000)	$0 to ($3,000,000)
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	**($132,299 to $3,201,676)**	**($68,634 to $3,137,666)**	**($70,410 to $3,141,190)**

FISCAL IMPACT - State Government	FY 2005 (10 Mo.)	FY 2006	FY 2007
INSURANCE DEDICATED FUND			
Costs - Department of Insurance			
Programming expenses	($3,600)	($3,600)	($3,600)
ESTIMATED NET EFFECT TO THE INSURANCE DEDICATED FUND	**($3,600)**	**($3,600)**	**($3,600)**

Note: This does not reflect the possibility that some of the tax credits could be utilized by insurance companies against insurance premium taxes. If this occurs, the loss in tax revenue would be split between the General Revenue Fund and the County Foreign Insurance Fund and the County Stock Insurance Fund, which ultimately go to local school districts.

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

FISCAL IMPACT - Small Business

New small businesses or small businesses that expand could be eligible for this tax credit program as a result of this proposal.

DESCRIPTION

This proposal would give a tax credit to registered sole proprietorships, certain registered corporations, and certain registered insurance companies that have either started a new business or expanded an existing business that employees 80 people or less a year. The credit would be available for the first three years following the expansion or establishment of the business and would be for an amount equal to five percent of the new revenue produced by the business, not to exceed five thousand, against the tax imposed on it pursuant to Chapter 143 or 148, RSMo.

RAS:LR:OD (12/02)

DESCRIPTION (continued)

The credit may be carried forward to subsequent tax years but not beyond the third tax year following the expansion of establishment of the business.

To be eligible for the credit the business must register with the business with the Secretary of State and file a letter of intent with the Department of Economic Development within ninety days of commencement of operations at the new or expanded business. The maximum number of tax credits certified in any fiscal year shall not exceed three million dollars. If properly acquired tax credits exceed three million the taxpayer shall be entitled to use the credit in the next year in which the cap is not yet exceeded. The Directors of Economic Development and Revenue shall promulgate rules in accordance with this proposal.

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 Economic Development
Department of Insurance
Office of Administration
    Budget and Planning
Office of the Secretary of State

Mickey Wilson

Mickey Wilson, CPA
Director
March 15, 2004