

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1319-01
Bill No.: SB 256
Subject: Agriculture and Animals; Economic Development; Tax Credits
Type: Original
Date: March 22, 2011

Bill Summary: This proposal repeals certain tax credit programs.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
General Revenue	\$0	\$9,297,845	\$9,297,845
Total Estimated Net Effect on General Revenue Fund	\$0	\$9,297,845	\$9,297,845

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on <u>Other</u> 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 2012	FY 2013	FY 2014
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on FTE	0	0	0

- Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).
- Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Budget and Planning (BAP)** assume the proposed legislation should not result in additional costs or savings to BAP. This proposal repeals the authorizing statutes for the following programs effective August 28, 2011:

The Rolling Stock Credit. This program is subject to appropriation. This proposal will not impact general and total state revenues.

The Wood Energy Tax Credit. Based on prior redemption patterns, and because the program has a carry forward provision, BAP estimates this proposal will increase general and total state revenues \$1.0 million in FY12, \$1.7 million in FY13, \$2.4 million in FY14, and \$3.4 million annually thereafter.

The Charcoal Producers Tax Credit. This program expired at the end of 2005, and the carryforward period is nearly over. This proposal will have no impact on general and total state revenues.

The Rebuilding Communities Tax Credit. Based on prior redemption patterns, and because the program has a carry forward provision, BAP estimates this proposal will increase general and total state revenues \$0.3 million in FY12, \$1.0 million in FY13, \$1.6 million in FY14, and \$1.8 million annually thereafter.

The Wine & Grape Production Credit. Based on prior redemption patterns, BAP estimates this proposal will increase general and total state revenues \$0.04 million in FY12, \$0.08 million in FY13, \$0.12 million in FY14, and \$0.18 million annually thereafter.

The Film Production Credit. Based on prior redemption patterns, and because the program has a carry forward provision, BAP estimates this proposal will increase general and total state revenues \$0.1million in FY12, \$1.4 million in FY13, \$2.9 million in FY14, and \$3.3 million annually thereafter.

The Self-Employed Health Insurance Credit. Based on prior redemption patterns, BAP estimates this proposal will increase general and total state revenues \$1.5 million in FY12, \$1.6 million in FY13, \$1.7 million in FY14, and \$1.8 million annually thereafter.

The Small Business Incubator Credit. Based on prior redemption patterns, and because the program has a carry forward provision, BAP estimates this proposal will increase general and

ASSUMPTION (continued)

total state revenues \$0 in FY12, \$.07 million in FY13, \$0.25 million in FY14, and \$0.5 million annually thereafter.

These programs may have encouraged other economic activity, but BAP cannot estimate the loss of revenues that would have otherwise been induced by these programs.

Officials at the **Department of Economic Development (DED)** assume this proposal would repeal the following tax credits administered by DED: Rebuilding Communities (135.535), Wine and Grape Growers (135.700), Film Production (135.750), and Small Business Incubator (620.495).

DED anticipates a positive fiscal impact as a result of eliminating these programs, but the exact amount of the positive impact is unknown due to the uncertainty as to the amount of tax credits that would actually be authorized and subsequently redeemed under the eliminated programs in any fiscal year. However, DED estimates the following range of potential positive fiscal impact, with the high end of the range represented by the applicable program cap and the low end represented by the average annual authorizations of tax credits under the applicable programs for fiscal years 2007 through 2009 (see chart below). This reflects the fact although there is a potential for authorizations under these programs up to the applicable cap in any fiscal year, actual authorizations are often less than the cap amount:

Program Eliminated	Savings Based on Average Authorizations (FY07-FY09)	Maximum Savings Based on Current Statutory Cap
Rebuilding Communities	\$1,788,394	\$8,000,000
Wine & Grape	\$183,495	Unknown (program uncapped)
Film Production	\$3,257,918	\$4,500,000
Business Incubator	\$500,000	\$500,000
TOTAL SAVINGS	\$5,729,807	\$13,000,000

Although this proposed legislation eliminates the above programs, DED assumes that tax credits previously issued would continue to be redeemed until any applicable carry forward periods had expired.

Officials at the **Department of Revenue** assume the department will need to make form and programming changes to various tax systems. The department's response to a proposal similar to or identical to this one in a previous session indicated the department planned to absorb the administrative costs to implement the proposal. Due to budget constraints, reduction of staff and

ASSUMPTION (continued)

the limitations within the department's tax systems, changes cannot be made without significant impact to the department's resources and budget. Therefore, the IT portion of the fiscal impact is estimated with a level of effort valued at \$2,120, which is 80 FTE hours.

Oversight assumes OA-ITSD (DOR) is provided with core funding to handle a certain amount of activity each year. Oversight assumes OA-ITSD (DOR) could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, OA-ITSD (DOR) could request funding through the appropriation process.

Officials at the **Department of Agriculture, Department of Insurance, Financial Institutions and Professional Registration** and the **Department of Natural Resources** assume that there is no fiscal impact from this proposal.

Oversight assumes that several of these programs have annual or program caps. The caps on these programs is greater than \$13,000,000. In FY 2010, these programs issued tax credits totaling \$11,573,289 and \$6,888,222 of those credits were redeemed. This proposal will repeal the following tax credit programs:

- Rolling Stock - Section 137.1018
- Wood Energy - Section 135.300
- Charcoal Producer - Section 135.313
- Rebuilding Community -Section 135.535
- Wine and Grape - Section 135.700
- Film Production -Section 135.750
- Self-Employed Health Insurance - Section 143.119
- Small Business Incubator - Section 620.495

Oversight assumes any income to the state from the tax credits not issued and the taxes being collected will start in September of 2011. However, since it is possible for the agency to issue all of the tax credits before this proposal prohibits any more being issued, Oversight will only show the savings beginning FY 2013. Oversight for the fiscal note is showing the amount of increased revenue to the State as being equal to the average amount issued over the last five years for each tax credit.

<u>FISCAL IMPACT - State Government</u>	FY 2012 (10 Mo.)	FY 2013	FY 2014
GENERAL REVENUE			
<u>Revenue</u> - stopping of the tax credits and collection of the taxes owed			
Rolling Stock - repeal	\$0	\$0	\$0
Wood Energy - repeal	\$0	\$3,398,846	\$3,398,846
Charcoal Producer -repeal	\$0	\$345,501	\$345,501
Rebuilding Community - repeal	\$0	\$1,703,581	\$1,703,581
Wine and Grape -repeal	\$0	\$157,579	\$157,579
Film Production - repeal	\$0	\$1,975,176	\$1,975,176
Self-Employed Health Insurance-repeal	\$0	\$1,428,578	\$1,428,578
Small Business Incubator -repeal	<u>\$0</u>	<u>\$288,584</u>	<u>\$288,584</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>\$0</u>	<u>\$9,297,845</u>	<u>\$9,297,845</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2012 (10 Mo.)	FY 2013	FY 2014
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

Small businesses that received the credits would be affected.

FISCAL DESCRIPTION

This act repeals the following tax credit programs:

- 1) The Wine and Grape Production Tax Credit;
- 2) The Charcoal Producers Tax Credit;
- 3) The Wood Energy Tax Credit;
- 4) The Self-Employed Health Insurance Tax Credit;
- 5) The Rebuilding Communities Tax Credit;
- 6) The Film Production Tax Credit;
- 7) The Small Business Incubator Tax Credit;
- 8) The Railroad Rolling Stock Tax Credit.

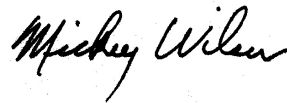
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FISCAL DESCRIPTION (continued)

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

Budget and Planning
Department of Agriculture
Department of Economic Development
Department of Insurance, Financial Institutions and Professional Registration
Department of Natural Resources
Department of Revenue



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Director
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