

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1535-01
Bill No.: HB 568
Subject: Tax Credits; Business and Commerce; Agriculture and Animals
Type: Original
Date: February 6, 2015

Bill Summary: This proposal authorizes a tax credit for the establishment of full-service grocery stores in food deserts.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
General Revenue	(\$75,168)	\$0 to (\$25,000,000)	\$0 to (\$25,000,000)
Total Estimated Net Effect on General Revenue	(\$75,168)	\$0 to (\$25,000,000)	\$0 to (\$25,000,000)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Total Estimated Net Effect on FTE	0	0	0

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Department of Economic Development (DED)** assume §135.1620 allows for a tax credit against the eligible expenses incurred for the construction of a full-service grocery store within a food desert area. After an initial investment of \$1 million has been made a taxpayer will be eligible for a tax credit of 50% of the amount in eligible expenses incurred. The tax credit is non-refundable and has an individual cap of \$2,500,000 per year, however; any unused portion of the tax credit may be carried over for three consecutive years until the full credit has been claimed. The total cap for the program is \$25 million.

As a result of this proposal DED is requesting 3 additional FTE. One Economic Development Specialist III, II, and I. The FTEs will assist in creating guidelines, reviewing applications, and compliance. DED assumes a negative impact ranging from \$0-\$25 million.

Oversight assumes that to due an individual cap of \$2,500,000 and total cap of \$25,000,000, as few as ten (10) people could claim this credit for an entire year. Therefore, Oversight assumes that due to the limited number of individuals that may be able to claim this credit, the DED could absorb the administration of this credit with existing resources.

Officials at the **Department of Revenue (DOR)** assume §135.1620 creates a new tax credit that allows a taxpayer a credit of 50 percent of the amount incurred in eligible expenses after initial expenses of \$1 million. This proposal defines eligible expenses as those incurred in the construction and development of a full-service grocery store. Subsection 4 limits the credits that may be authorized to \$25 million in any calendar year.

Personal Tax requires 501 hours of form and programming changes to the Personal Tax System at a cost of \$75 per hour for a total of \$37,584. Additionally, Personal Tax requires one Revenue Processing Technician I for every 6,000 credits claimed.

Corporate Tax requires 501 hours of form and programming changes to the Corporate Tax System at a cost of \$75 per hour for a total of \$37,584. Additionally, Corporate Tax requires three Revenue Processing Technicians I for tax credit redemption, credit transfers, compliance mailings, and correspondence.

Oversight notes, again, that as few as ten (10) taxpayers could use up credits for a tax year and, therefore, assumes DOR's Personal and Corporate Tax Divisions could absorb the responsibilities of this tax credit with existing resources. Should DOR experience the number of additional tax credit redemptions to justify another FTE, they could seek that FTE through the

ASSUMPTION (continued)

appropriation process. Oversight will show one-time costs for computer systems changes.

Officials at the **Office of the Administration's Division of Budget and Planning (BAP)** assume this proposal would provide tax credits for taxpayers who develop and construct a new location within a classified food desert within the state. Based on data published by the United State Department of Agriculture, there are 452 census tracts within Missouri that are classified as low-income and have a population that is located at least half a mile from a full-service grocery store in urban areas or ten miles in rural areas. If these businesses were to locate in one of these tracts, the qualifying taxpayer would be able to claim tax credits against their state tax liability up to 50% of their eligible costs after the initial expenses have exceeded \$1,000,000. There will be a \$25,000,000 cap placed on the tax credit. This proposal also allows any tax credits that have been issued to be transferred, sold, or assigned to other full-service grocers that are locating in food deserts.

"New location" is for real property acquired after 1/1/2016; therefore, General and Total State Revenues may be reduced as early as FY 2017. The proposals language may not clearly limit the tax credits to new facilities in food desert locations.

Officials at the **Joint Committee on Administrative Rules** assume no fiscal impact from this proposal.

Oversight assumes this proposal begins with tax years starting January 1, 2016, and therefore, the first time this would be claimed on a taxpayer's tax return would be FY 2017. Oversight will reflect the impact as \$0 (no credits claimed) to the \$25 million annual cap.

Officials from the **Office of the Secretary of State (SOS)** state many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the SOS for Administrative Rules is less than \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, the SOS also recognizes that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what the office can sustain with the core budget. Therefore, the SOS reserves the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

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.

<u>FISCAL IMPACT - State Government</u>	FY 2016 (10 Mo.)	FY 2017	FY 2018
GENERAL REVENUE			
<u>Cost</u> - Dept of Revenue - computer programming (one-time)	(\$75,168)	\$0	\$0
<u>Loss</u> - §135.1620 creation of the grocery store tax credit	<u>\$0</u>	\$0 to <u>(\$25,000,000)</u>	\$0 to <u>(\$25,000,000)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>(\$75,168)</u>	<u>\$0 to (\$25,000,000)</u>	<u>\$0 to (\$25,000,000)</u>
<u>FISCAL IMPACT - Local Government</u>	FY 2016 (10 Mo.)	FY 2017	FY 2018
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

Full-service grocery store industries may benefit from this proposal.

FISCAL DESCRIPTION

This bill authorizes an income tax credit for full-service grocery stores located in a food desert. A "food desert" is defined as a census tract that has a poverty rate of at least 20% or a median family income of less than 80% of the statewide average featuring at least 500 people or 33% of the population located at least one-half mile from a full-service grocery store in urban areas or 10 miles in rural areas.

A taxpayer is allowed to claim a tax credit in an amount equal to 50% of the amount incurred in the construction or development of property for the purpose of establishing a full-service grocery

FISCAL DESCRIPTION (continued)

store by the taxpayer after initial expenses of \$1 million. A taxpayer cannot be allowed to claim a tax credit in excess of \$2.5 million per taxable year. The credit is nonrefundable, but may be carried over to the next three years. The credits can be transferred, sold, or assigned. The total amount of credits authorized cannot exceed \$25 million in any calendar year.

A taxpayer must repay the credits if he or she fails to complete construction of a full-service grocery store within five years or fails to operate a full-service grocery store at the same new location for at least 10 consecutive years.

The provisions of the bill will expire six years after the effective date.

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 Administration's Division of Budget and Planning
Department of Revenue
Joint Committee on Administrative Rules
Office of the Secretary of State



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February 6, 2015

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February 6, 2015