

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5426-03
Bill No.: HCS for HB 2632
Subject: Agriculture; Tax Credits; Agriculture, Department of; Motor Fuel; Fees; Weights and Measures
Type: Original
Date: April 15, 2016

Bill Summary: This proposal changes the laws regarding agriculture.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2017	FY 2018	FY 2019	Fully Implemented (2020)
General Revenue	(\$131,071)	\$0 to (\$9,000,000)	\$0 to (\$9,000,000)	\$0 to (\$9,000,000)
Total Estimated Net Effect on General Revenue	(\$131,071)	\$0 to (\$9,000,000)	\$0 to (\$9,000,000)	\$0 to (\$9,000,000)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2017	FY 2018	FY 2019	Fully Implemented (2023)
Petroleum Inspection Fund	Up to \$692,771	Up to \$1,364,759	Up to \$1,344,288	Up to \$2,109,045
Total Estimated Net Effect on <u>Other</u> State Funds	Up to \$692,771	Up to \$1,364,759	Up to \$1,344,288	Up to \$2,109,045

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 11 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2017	FY 2018	FY 2019	Fully Implemented
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)				
FUND AFFECTED	FY 2017	FY 2018	FY 2019	Fully Implemented
Total Estimated Net Effect on FTE	0	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 2017	FY 2018	FY 2019	Fully Implemented
Local Government	\$0	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Office of Administration's Division of Budget and Planning (BAP)** assume, §§135.679, 135.684, and 135.686, under the current law no more \$3,000,000 in Qualified Beef Tax Credits can be issued per fiscal year. If this proposal causes redemptions to increase under the cap, it could lower total state revenues by roughly \$2,668,738, and could impact the calculation under Article X, Section 18(e).

§348.436 extends the sunset of two existing, General Revenue funded tax credits programs from December 31, 2016, to December 31, 2021. Therefore, this will have no direct impact on Total State Revenues.

BAP notes that redemptions under the New Generation Cooperative Tax Credit have averaged \$3.2 million over the last three years. Similarly, redemptions under the Agricultural Product Utilization Contributor Tax Credit have averaged \$1.4 million. The two tax credits share an aggregate cap of \$6 million per year.

§414.082 will affect both Total State Revenue and 18e tax and fee calculations by changing the current statutory limits on petroleum inspection fees. BAP defers to the Department of Agriculture for an estimate of its potential fiscal impact.

Under the current law, no more than \$3,000,000 in Qualified Beef Tax Credits can be issued per fiscal year. These tax credits sunset under the current law on December 31, 2016. For the three most recent, complete fiscal years, the average amount of tax credits issued was \$463,526 and the average amount redeemed was \$331,262. The proposal postpones the 2016 sunset until 2021, substantially revises the terms of the Qualified Beef Tax Credit, and creates two new agricultural tax credits through the Livestock Risk Protection Tax Credit Act and the Meat Processing Facility Investment Tax Credit Act. The legislation would limit the amount of tax credits authorized or issued under these acts to no more than \$3,000,000 per calendar year. BAP assumes that this \$3,000,000-per-calendar-year cap applies to the aggregate total of the three tax credits rather than as a separate limit for each. If this proposal causes redemptions to increase under the cap, it could lower General and Total State Revenues by roughly \$2,668,738.

Some of these tax credits may offset Tax Year 2016 liabilities; therefore, General and Total State Revenues may be reduced as early as FY 2017.

Officials at the **Department of Revenue (DOR)** assume §135.679 modifies the Qualified Beef Tax Credit Act. Subsection 3 extends the tax credit until December 31, 2021. The provisions of

ASSUMPTION (continued)

Subsection 3 also split the tax credit amount between sales for qualifying weights under 600 pounds and qualifying weights 600 pounds or more. The legislation limits the tax credits to no more than \$10,000 per year. The legislation caps this section, §135.684 and §135.686 at \$3 million.

§135.684 creates the Livestock Risk Protection Tax Credit Act. The legislation provides taxpayers a credit against taxes under Chapters 143 and 147. This legislation allows a taxpayer to claim a 50 percent tax credit for the purchase of livestock risk protection insurance for cattle.

§135.686 creates the Meat Processing Facility Investment Tax Credit Act. Beginning January 1, 2017, and ending December 31, 2021, the legislation allows a taxpayer a 25 percent tax credit for meat processing modernization or expansion related to the taxpayer's meat processing facility.

The Department requires form and programming changes at a rate of \$75 per hour for 79.92 hours for a total cost of \$5,994.

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

DOR assumes to implement the provisions of this legislation, the integrated tax system requires additional programming costs of \$131,071.

Personal Tax requires two Revenue Processing Technicians I , one for each new tax credit.

As this is an agricultural credit, it falls under the requirements of Senate Bill 1099. Corporate Tax requires three Revenue Processing Technicians I ; one per 4,000 tax credits redeemed, one per 4,000 tax credits transferred, and one for every 520 Senate Bill 1099 compliance mailings and correspondence.

Oversight assumes the duties outlined in this proposal can be handled by current staff. Should DOR see an increase in redemptions to justify additional FTE, they can seek those FTE through the appropriations process.

DOR also assumes the provisions of §348.430 to 348.436 are set to expire December 31, 2021.

§414.082 the rate charged for inspections until December 31, 2016, is two and one-half cent

ASSUMPTION (continued)

(\$0.025) per barrel. Between January 1, 2017, and December 31, 2021, the rate charged for the inspection of gasoline, blended fuels, kerosene, etc., cannot exceed four cents (\$0.04) per barrel. After January 1, 2022, the legislation sets the maximum fee at five cents (\$0.05) per barrel.

The rate charged in this legislation can be adjusted annually, requiring updates to forms, rate notification to approximately 490 licensed suppliers and distributors, and minor programming changes to the motor fuel tax system. Additionally, regulation 12 CSR 10-7.190 requires revision.

In summary, DOR is requesting 5 FTE at an approximate cost of \$136,000 for salary and fringe benefits, \$35,000 in FY 2017 and approximately \$6,000 every year after for equipment and expenses and \$137,066 in computer programming costs.

Officials at the **Department of Economic Development** defer to the Department of Agriculture for fiscal impact.

Officials at the **Department of Agriculture (MDA)** assume §135.679 is a revision and extension of the existing Qualified Beef tax credit. Without the extension the program will end. The revisions are designed to make the program more effective and thereby increase participation.

§135.684 establishes the Livestock Risk Protection Tax Credit Act, which will be administered by the Missouri Agricultural and Small Business Development Authority.

§135.686 establishes the Meat Processing Facility Investment Tax Credit Act which will be administered by the Missouri Agricultural and Small Business Development Authority.

The Qualified Beef Tax Credit has had an average usage of only \$463,525 over the past three fiscal years. If the pending statutory changes resulted in an increase in program participation, the Qualified Beef program could issue up to an additional \$2,536,475 of tax credits. However, the effectiveness of these statutory changes in attracting additional program participation is unknown. Therefore, MDA estimates the total fiscal impact to be unknown; from \$0 to \$2,536,475 if the statutory cap is reached.

The combined cost of all three tax credits does not increase total potential costs beyond the current \$3 million cap, so there is no additional authorization in this bill over and above the already existing \$3 million annual limit.

It is difficult to determine the extent of the usage of each of the three tax credits going forward.

ASSUMPTION (continued)

For example, the Livestock Risk Protection Insurance Program that comprises one of the new tax credits in the legislation has a very low market penetration for beef producers so it is hard to project any significant program participation going forward.

In response to similar legislation filed this year, (SB 884), **MDA** assumes \$414,082 of this proposal would have a positive fiscal impact on their organization by increasing the inspection fee of specific motor fuels allowing the current level of service by this program to be maintained.

MDA notes the revenue estimates assume that, without the inspection fee adjustments allowed by SB 884, current revenues would continue their 1.5 percent average annual decline. The revenue estimates also assume that there will continue to be a one month lag between the fees assessed and the Department of Revenue's actual collection and deposit of revenues into the petroleum inspection fund (e.g. fees assessed in January 2017 are not deposited into the inspection fee fund until February 2017). Note that with the reduction in gasoline and diesel fuel prices, consumption has increased 1.5% for the first 5 months of the fiscal year but over the long term, as more newer, better mileage vehicles enter the market, a 1.5% annual reduction in fuel consumption is anticipated.

MDA estimates a 3.5 cent per 50-gallon barrel inspection fee may be necessary effective 1-1-17 in order to maintain the current level of services provided by the program.

If the adjustment allowed by SB 884 is needed, the revenue estimates would be as follows:

Current Per Barrel Fees for Inspection of Motor Fuels				
Revenue	Projected FY16	Projected FY17	Projected FY18	Projected FY19
Annual	\$2,344,403.40	\$2,309,237.35	\$2,274,598.79	\$2,240,479.81
Per Month Revenue	\$195,366.95	\$192,436.45	\$189,549.90	\$186,706.65

Per Barrel Fees for Inspection of Motor Fuels from SB 884 - Effective 1/1/17				
Under SB 884	Projected FY16	Projected FY17	Projected FY18	Projected FY19
Annual	Not applicable	\$2,694,110.24	\$3,184,438.30	\$3,136,671.73
Difference	Not applicable	\$384,872.89	\$909,839.52	\$896,191.92

ASSUMPTION (continued)

Oversight assumes currently, the fee for the inspection of certain motor fuels for the Department of Agriculture is used for expenses to administer the program. The fee cannot be less than 1.5 cents per barrel and cannot exceed 2.5 cents per barrel. The Department of Revenue (DOR) sets the per barrel fee, after receiving an expense report from AGR, for the ensuing calendar year. DOR sets the fee to not yield revenue greater than costs of administering the program.

Oversight notes, according to the State Treasurer's Office, the balance of the Petroleum Inspection Fund (0662) as of June 30, 2015 was \$1,396,025.53. Total receipts for FY15 were \$2,353,862.98 and total disbursements were \$1,650,946.16.

Utilizing MDA's estimate of 1.5% reduction in utilization, **Oversight** assumes the following potential impact of the proposal:

Year	Projected Revenue (current 3.5 cents rate)	Projected Barrels (assuming 1.5% decline)	Maximum Charge per Barrel Allowed in the Proposal	Potential New Revenue Estimates	Projected Possible Additional Revenue
FY 2016	\$2,344,403	93,766,120	.025		
FY 2017	\$2,309,237	92,369,478	.04 (at 1/1/17)	\$3,002,008	\$692,771
FY 2018	\$2,274,599	90,983,936	.04	\$3,639,357	\$1,364,759
FY 2019	\$2,240,480	89,619,177	.04	\$3,584,767	\$1,344,288
FY 2020	\$2,206,872	88,274,889	.04	\$3,530,996	\$1,324,123
FY 2021	\$2,173,769	86,950,766	.04	\$3,478,031	\$1,304,261
FY 2022	\$2,141,163	85,646,505	.05 (at 1/1/2022)	\$3,854,093	\$1,712,930
FY 2023	\$2,109,045	84,361,807	.05	\$4,218,090	\$2,109,045

Oversight will range the fiscal impact of this proposal to the Petroleum Inspection Fund as "Up To" the amounts reflected above. The Department of Revenue has the ability charge a fee up to the new maximums.

Oversight will reflect 6 months of potential impact in FY 2017, or \$692,771 (\$1,385,542 x 6/12).

ASSUMPTION (continued)

Oversight notes the Qualified Beef Tax Credit has a sunset date of December 31, 2016. In 2015 the amount of credits issued was \$388,080, in 2014 the amount of credits issued was \$188,955 and in 2013 the amount of credits issued was \$813,542. This proposal also changes the qualifying sale rate from ten cents per pound for all sale weights to ten cents per pound for sale weights under six hundred pounds and twenty-five cents per pound for qualifying sale weights of six hundred pounds or greater. These changes will increase credit issuance.

Oversight notes this proposal creates two additional tax credits; the Livestock Risk Protection Tax Credit Act (§135.684) and the Meat Processing Facility Investment Tax Credit Act (§135.686). Both credits are effective January 1, 2017 and, with §135.679 (Qualified Beef Tax Credit Act), have an aggregate cap of \$3 million. The first time these credits can be claimed on a taxpayer's tax return would be FY 2018. Therefore, Oversight will reflect the impact as \$0 (no credits claimed) to the \$3 million annual cap starting in FY 2018.

Oversight notes §348.436 of this proposal extends the expiration date for the Agricultural Product Utilization Contributor Tax Credit (§348.430) and the New Generation Cooperative Incentive Tax Credit (§348.432) from December 31, 2016 to December 31, 2021. §348.434 states the aggregate amount of tax credits issued for §348.430 and §348.432 shall not exceed \$6 million. The first time these credits can be claimed on a taxpayer's tax return would be FY 2018. Therefore, Oversight will show the impact as \$0 (no credits claimed) to the maximum cap of \$6 million starting in FY 2018.

Oversight notes historically the utilization of the Agricultural Product Utilization Contributor Tax Credit and the New Generation Cooperative Incentive Tax Credit is as follows:

	FY 2013	FY 2014	FY 2015
Ag. Product	\$1,062,510	\$1,573,720	\$2,376,168
New Gen.	\$4,937,490	\$4,426,280	\$2,112,545
TOTAL	\$6,000,000	\$6,000,000	\$4,488,713

Changes to Section 414.082, RSMo could increase Total State Revenues.

<u>FISCAL IMPACT - State</u>				Fully
<u>Government</u>	FY 2017	FY 2018	FY 2019	Implemented
	(10 Mo.)			(2020)

GENERAL REVENUE

<u>Cost - DOR - integrated tax system changes</u>	(\$131,071)	\$0	\$0	\$0
---	-------------	-----	-----	-----

<u>Revenue Reduction - extends expiration date for §348.430 to §348.436 (Ag. Product Utilization and New Generation Cooperative)</u>	\$0	\$0 to (\$6,000,000)	\$0 to (\$6,000,000)	\$0 to (\$6,000,000)
--	-----	-------------------------	-------------------------	-------------------------

<u>Revenue Reduction - tax credits under §135.679, §135.684 & §135.686 (Qualified Beef, Livestock Risk Protection, and Meat Processing Facility)</u>	\$0	\$0 to (\$3,000,000)	\$0 to (\$3,000,000)	\$0 to (\$3,000,000)
--	-----	-------------------------	-------------------------	-------------------------

ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>(\$131,071)</u>	<u>\$0 to (\$9,000,000)</u>	<u>\$0 to (\$9,000,000)</u>	<u>\$0 to (\$9,000,000)</u>
--	---------------------------	------------------------------------	------------------------------------	------------------------------------

	FY 2017	FY 2018	FY 2019	Fully
	(10 Mo.)			Implemented
				(2023)

PETROLEUM INSPECTION FUND

<u>Revenue - inspection fee increase</u>	<u>Up to \$692,771</u>	<u>Up to \$1,364,759</u>	<u>Up to \$1,344,288</u>	<u>Up to \$2,109,045</u>
--	------------------------	--------------------------	--------------------------	--------------------------

ESTIMATED NET EFFECT ON THE PETROLEUM INSPECTION FUND	<u>Up to \$692,771</u>	<u>Up to \$1,364,759</u>	<u>Up to \$1,344,288</u>	<u>Up to \$2,109,045</u>
--	-------------------------------	---------------------------------	---------------------------------	---------------------------------

<u>FISCAL IMPACT - Local Government</u>	FY 2017	FY 2018	FY 2019	Fully
	(10 Mo.)			Implemented
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

Small agricultural businesses that qualify for the tax credits could be impacted by this proposal.

Small business suppliers and distributors engaged in the sale of certain motor fuels could be impacted annually by an update of the per barrel fee for the inspection of certain motor fuels from this proposal.

FISCAL DESCRIPTION

This bill modifies the Qualified Beef Tax Credit Act by modifying the baseline weight to be the average of the previous two years and extending the sunset on the credit from Dec. 31, 2016, to December 31, 2023. Currently, a farmer can receive the tax credit of \$.10 per pound for each pound as long as the sale weight is 200 pounds over the baseline weight. The bill would allow for a credit of \$.10 per pound for each pound as long as the sale weight is 100 pounds over the baseline weight if the sale weight is under 600 pounds and \$.25 per pound for each pound as long as the sale weight is 100 pounds over the baseline weight if the sale weight is 600 pounds or greater. A taxpayer may not claim credit of more than \$10,000 per year and can only claim the credit for up to three years.

This bill also creates Livestock Risk Protection Tax Credit Act, which beginning January 1, 2017, and ending December 31, 2023, authorizes a tax credit for 50% of a taxpayer's cost of the livestock risk protection premiums for the year. The taxpayer may not claim credit of more than \$10,000 per year and can only claim the credit for up to three years. The credit may be assigned, transferred, or sold. A taxpayer may not claim credit under this credit and the Qualified Beef Tax Credit in the same year.

This bill also creates Meat Processing Facility Investment Tax Credit Act, which beginning January 1, 2017, and ending December 31, 2023, authorizes a tax credit for 25% of the amount the taxpayer spent for meat processing modernization or expansion for the year. The taxpayer may not claim credit of more than \$75,000 per year. The credit may be assigned, transferred, or sold.

The amount of credit claimed under the Qualified Beef Tax Credit, the Livestock Risk Protection Tax Credit, and the Meat Processing Facility Investment Tax Credit may not exceed \$3 million per calendar year.

Currently the agricultural product utilization contributor tax credit and the new generation cooperative incentive tax credit expire on December 31, 2016. The bill extends the sunset on these tax credits to December 31, 2021.

FISCAL DESCRIPTION (continued)

Currently, the fee for the inspection of certain motor fuels shall not be less than 1.5 cents per barrel and shall not exceed 2.5 cents per barrel. This bill specifies that the per barrel fee may not exceed 4 cents per barrel from 2017 to 2021, and may not exceed 5 cents per barrel from 2022 and thereafter.

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 Agriculture
Department of Economic Development
Department of Revenue
Office of Administration's Division of Budget and Planning



Mickey Wilson, CPA
Director
April 15, 2016

Ross Strobe
Assistant Director
April 15, 2016