

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2970-03
Bill No.: Perfected SCS for SB 700
Subject: Taxation and Revenue; Economic Development; Enterprise Zones; Tax Credits.
Type: Original
Date: February 26, 2004

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
General Revenue	\$0	(\$178,745 to Unknown)	(\$178,745 to Unknown)
Total Estimated Net Effect on General Revenue Fund*	\$0	(\$178,745 to Unknown)	(\$178,745 to Unknown)

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

*** The fiscal impact could be divided between the General Revenue Fund and the County Foreign Insurance Fund (which ultimately goes 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 5 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Total Estimated Net Effect on <u>All</u> 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 could be divided between the General Revenue Fund and the County Foreign Insurance Fund (which ultimately goes to local school districts) if some of the tax credits are utilized against insurance premium taxes.**

FISCAL ANALYSIS

ASSUMPTION

In response to a similar proposal from this year, officials from the **Office of Administration - Budget and Planning (BAP)** stated the proposal should not result in additional costs or savings to their agency. However, this proposal may have a negative impact on Total State Revenue and General Revenue. BAP deferred to the Department of Economic Development for the fiscal impact to the state.

In response to a similar proposal from this year, officials from the **Department of Revenue (DOR)** stated their Division of Taxation does not anticipate a large number of taxpayers that would/could use this credit. Therefore, DOR will not request additional FTE at this time. However, if the number of additional credits is larger than expected, DOR would need one Tax Processing Tech I for every 4,000 personal taxpayers claiming the credit and one for every 3,680 business taxpayers claiming the credit. These employees would maintain the certification of the credits and verify the amounts on the returns as claimed by the taxpayers. DOR defers to the Department of Economic Development or BAP for the estimated impact to the General Revenue Fund.

ASSUMPTION (continued)

Officials from the **Department of Insurance (INS)** state the designation of an additional enterprise zone will increase the areas that receive enterprise zone tax credits. If insurance companies invest or expand into the new enterprise zone, they will be eligible for additional tax credits, reducing premium tax revenue. Premium tax revenue is split evenly between General Revenue and the County Foreign Insurance Fund or deposited solely into the County Stock Fund depending on the type of company. The County Foreign Insurance Fund and County Stock Fund are later distributed to school districts. INS is unable to project how much in additional tax credits may be generated and what effect it will have on premium tax collections. Fiscal impact will be an unknown loss of revenue to the three funds.

Officials from the **Department of Economic Development (DED)** state the bill authorizes a new rural enterprise zone in Laclede County and a satellite zone for Sugar Creek. The bill could result in additional tax credits being issued. DED does not feel the bill has enough immediate impact on DED to warrant additional personnel or expenditures. At some point in the future, enough additional enterprise zone credits could be issued that would require an additional person. At that time, DED would request additional funding.

DED states the average cost for each enterprise zone in a rural area (not located in a Standard Metropolitan Area such as Kansas City, St. Louis, St. Joseph, Springfield, or Joplin) is estimated to be \$118,745 per year. This bill provides for an enterprise zone in a rural area. DED also assumes, based on averages, that there will be a \$60,000 to an unknown amount for the satellite zone. These costs will not be incurred until Fiscal Year 2006. The cost of the enterprise zone and satellite zone includes the costs of tax credits, refunds, and income modifications (modification times tax rate to convert to dollar benefit) for a year. These figures are an average so some zones will cost more and some will cost less. It is not possible to predict anything more than the averages used as the cost until the zone has been created and mapped. Moreover, the satellite zone created by this bill would include retail establishments, which are generally not eligible under the law. DED cannot ascertain what effect the inclusion of such businesses would have on the overall cost of the zone, but it would in all likelihood make the cost greater than an average satellite zone.

DED assumes the state's Total State Revenue will be reduced by the tax credits and income modifications. This will be offset by some positive but indeterminable amount of economic benefit realized by the designation of enterprise zones.

In response to a previous version of this proposal, officials from **Laclede County** stated the proposal would not fiscally impact them.

ASSUMPTION (continued)

Oversight assumes the local taxing and governing authorities may grant an exemption (in whole or in part) of property taxes to new or expanding businesses after holding the required public hearings on the matter, therefore, has estimated the local impact as zero. The fiscal note does not reflect any indirect positive result that may occur because of the tax credits issued.

This proposal may result in a loss of Total State Revenue.

<u>FISCAL IMPACT - State Government</u>	FY 2005 (10 Mo.)	FY 2006	FY 2007
GENERAL REVENUE			
<u>Loss</u> - Enterprise Zone in Laclede Co.	\$0	(\$118,745)	(\$118,745)
<u>Loss</u> - Satellite Zone in Jackson Co.	<u>\$0</u>	(\$60,000 to <u>Unknown</u>)	(\$60,000 to <u>Unknown</u>)
ESTIMATED NET EFFECT TO GENERAL REVENUE	<u>\$0</u>	<u>(\$178,745 to Unknown)</u>	<u>(\$178,745 to Unknown)</u>

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, which ultimately goes to local school districts.

<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

This proposal could have a direct fiscal impact to small businesses that are in the newly created enterprise zone and satellite zone.

DESCRIPTION

This proposal authorizes the creation of enterprise zone in Laclede County and satellite zone in Jackson County.

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 Insurance
Office of Administration - Budget and Planning
Department of Economic Development
Laclede County



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Director
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