

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 1961-01  
Bill No.: HB 805  
Subject: Economic Development; Science and Technology; Taxation and Revenue  
Type: Original  
Date: February 13, 2007

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Bill Summary: This proposal allows the Missouri Technology Corporation to authorize tax credits in certain situations.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
General Revenue	(\$32,130 to \$10,032,130)	(\$32,955 to \$10,032,955)	(\$33,943 to \$10,033,943)
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>(\$32,130 to \$10,032,130)</b>	<b>(\$32,955 to \$10,032,955)</b>	<b>(\$33,943 to \$10,033,943)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

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

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2010</b>
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>			
<b>FUND AFFECTED</b>	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2010</b>
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</b>

- 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).

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2010</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

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## FISCAL ANALYSIS

### ASSUMPTION

Officials from the **Office of Administration - Budget and Planning** state this legislation authorizes tax credits to venture capitalists contributing to certain qualifying companies. Budget and Planning assumes a loss of general and total state revenues of \$10 million per fiscal year, the program's cap.

Officials from the **Department of Economic Development (DED)** state the bill will allow the Missouri Technology Corporation (MTC) to issue \$10 million in tax credits for investment in Missouri business and research. DED projects no immediate fiscal or administrative impact from the bill.

DED assumes the bill will result in an unknown positive impact on General Revenue. The tax credits will be used to bring additional business into Missouri from outside the state. DED anticipates the credits will create a positive but unknown impact on GR through direct and indirect economic benefits created by their issuance.

Officials from the **Department of Revenue (DOR)** state this legislation establishes a new tax credit with carry-forward provisions. The Personal Tax Section would require 1 Tax Processing Technician I for every 6,000 credits claimed.

DOR assumes a cost to the General Revenue Fund of roughly \$40,000 annually from this proposal.

**Oversight** has, for fiscal note purposes only, changed the starting salary for DOR's Tax Processing Tech I to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees for a six month period and the policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. Oversight also assumes DOR would not incur additional floor space expense for the one new FTE, and therefore have taken this out of their estimate.

The proposal is silent to when the tax credits may be issued. Therefore, **Oversight** will assume these credits could potentially be issued after August 28, 2007 and redeemed in fiscal year 2008. Oversight will range the fiscal impact of the tax credits from \$0 (no credits being redeemed in a given year) to the annual limit of \$10,000,000.

ASSUMPTION (continued)

**Oversight** compared the total tax credit issuances relative to the total tax credit redemptions for the previous three years in order to determine a relationship between the two. Oversight discovered that the annual redemptions ranged from 79 percent to 86 percent of the annual issuances. Depending on the program, the redeemed credits may have been issued several years prior and carried forward to the years studied; however, Oversight will utilize an estimated redemption total of 83 percent of tax credits issued. Therefore, under this proposal, if \$10,000,000 of credits are issued, Oversight would assume \$8,300,000 (83%) of credits to be redeemed, reducing Total State Revenues.

**Oversight** assumes there would be some positive economic benefit to the state as a result of the changes in this proposal; however, Oversight considers these benefits to be indirect and therefore, have not reflected them in the fiscal note.

**This proposal could reduce Total State Revenues.**

<u>FISCAL IMPACT - State Government</u>	FY 2008 (10 Mo.)	FY 2009	FY 2010
<b>GENERAL REVENUE FUND</b>			
<u>Costs - Department of Revenue</u>			
Personal Service	(\$18,066)	(\$22,330)	(\$23,000)
Fringe Benefits	(\$8,177)	(\$10,107)	(\$10,410)
Expense and Equipment	(\$5,887)	(\$518)	(\$533)
<u>Total Costs - DOR</u>	<u>(\$32,130)</u>	<u>(\$32,955)</u>	<u>(\$33,943)</u>
FTE Change - DOR	1 FTE	1 FTE	1 FTE
<u>Loss - Department of Revenue</u>			
Tax credits issued by the Missouri Technology Corporation	\$0 to <u>(\$10,000,000)</u>	\$0 to <u>(\$10,000,000)</u>	\$0 to <u>(\$10,000,000)</u>
<b>ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND</b>	<b>(\$32,130 to <u>\$10,032,130</u>)</b>	<b>(\$32,955 to <u>\$10,032,955</u>)</b>	<b>(\$33,943 to <u>\$10,033,943</u>)</b>
Estimated Net FTE Change for General Revenue Fund	1 FTE	1 FTE	1 FTE

<u>FISCAL IMPACT - Local Government</u>	FY 2008 (10 Mo.)	FY 2009	FY 2010
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

Small businesses that qualify for the tax credits or small businesses that receive the venture capital as a result of this proposal would be fiscally impacted.

FISCAL DESCRIPTION

This proposal allows the Missouri Technology Corporation to authorize up to \$10 million in tax credits per fiscal year.

A taxpayer can receive a 30% tax credit for a contribution toward the first \$500,000 in venture capital contributed to a qualifying company or a 40% tax credit if the company is located in a rural area or distressed community. The corporation can reserve tax credits for taxpayers who contribute the initial \$5 million in venture capital to the company. The tax credit is equal to 30% of the amount invested or 40% if the company is located in a rural area or distressed community.

The reserved tax credits will only be issued to investors who have a net loss of investment within five years of contributing the first \$5 million in venture capital to an approved company.

A taxpayer can receive a 50% tax credit for contributions to a technology commercialization infrastructure project or for expenditures for industrial research conducted at a public research institution or private not-for-profit research institution for a collaborative research project approved by the corporation.

The credits can be used to offset current income taxes, carried over for three consecutive years, or transferred.

A qualifying company that relocates its headquarters out of Missouri, ceases to employ 80% of its employees in Missouri, alters the principal nature of its operations, or divests itself of key assets is required to repay the state for the tax credits issued to its contributors

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

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SOURCES OF INFORMATION

Department of Economic Development  
Department of Revenue  
Office of Administration  
Budget and Planning

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive style with a large initial "M".

Mickey Wilson, CPA  
Director  
February 13, 2007