COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3365-02
Bill No.: SB 749
Subject: Motor Fuel; Motor Vehicles; Taxation and Revenue - General; Taxation and Revenue - Income; Taxation and Revenue - Sales and Use
Type: Original
Date: February 1, 2008

Bill Summary: Would create various tax incentives for certain energy uses.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
General Revenue	($1,568,424)	($1,583,921)	($1,586,609)
Total Estimated Net Effect on General Revenue Fund	**($1,568,424)**	**($1,583,921)**	**($1,586,609)**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 13 pages.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Conservation Commission	($180,552)	($55,165)	($55,165)
Parks, and Soil and Water	($144,442)	($44,132)	($44,132)
School District Trust	($722,209)	($220,660)	($220,660)
Road	($2,476,146)	($756,549)	($756,549)
Road Bond	($1,807,586)	($552,280)	($552,280)
Transportation	($49,523)	($15,131)	($15,131)
Total Estimated Net Effect on Other State Funds	**($5,380,458)**	**($1,643,917)**	**($1,643,917)**

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
General Revenue	9	9	9
Total Estimated Net Effect on FTE	**9**	**9**	**9**

☒ 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 2009	FY 2010	FY 2011
Local Government	**($722,209)**	**($220,660)**	**($220,660)**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of the Secretary of State** (SOS) provided this response.

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 office recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize 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 our office can sustain with our core budget. Therefore, we reserve 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.

Officials from the Office of **Administration, Division of Budget and Planning** (BAP), assume there would be no added cost to their organization as a result of this bill.

This proposal would creates an individual and business tax credit for 25% of the cost to purchase and install an E-85 conversion kit. The program is capped at $500,000 total annual credits. Because the program provides carry-forward and transfer options, BAP assumes this provision would reduce general and total state revenues by this amount annually.

This proposal would also provide a deduction from Missouri adjusted gross income, up to $1,500, for the purchase of a qualifying hybrid vehicle. According to a 2/26/07 news release published by R.L. Polk , there were 254,545 hybrid vehicle registrations in 2006. Missouri was not among the top ten states cited in the article, which accounted for 155,979 of these registrations. BAP assumes Missouri accounted for 1/40 of the remaining registrations, or a total of 2,464. A separate article 9/17/07 from R.L. Polk projects an increase of 56.9 percent in 2007 for Midwestern states. Using this rate, BAP estimates 3,866 hybrid registrations in Missouri in 2007.

This proposal could reduce Missouri Taxable Income by (3,866 vehicles x $1,500 tax deduction per vehicle) = $5.8 million. Assuming a 4.5% effective tax rate, this provision could reduce general and total state revenues by ($5,800,000 x 4.5%) = $261,000 annually beginning in FY09.

ASSUMPTION (continued)

This proposal would provide an income tax credit of up to $500 per taxpayer, but no less than $50, for the purchase of E-85, biodiesel, or bio-diesel blended gasoline. The aggregate amount of tax credits which may be redeemed in any fiscal year could not exceed $500,000. This provision could reduce general and total state revenues. This provision would become effective for 2009, resulting in a revenue reduction FY 2010.

This proposal would exempt from sales tax purchases of new diesel-powered motor vehicles that weigh under 8,500 pounds. This provision would reduce total state revenues, revenues to highway funds, and to various local funds. BAP defers to DOR or MODOT for an estimate of the impact of this provision.

This proposal would exempt sales of new E-85 vehicles from sales tax. BAP defers to DOR for an estimate of the number of E-85 vehicles sold annually, and the revenue impact of this provision. This provision would reduce highway funds, total state revenues, and local government funds.

Officials from the **Department of Conservation** (MDC) assume this proposal would have a negative fiscal impact on MDC funds. It would exempt new diesel-powered motor vehicles with a gross rating not exceeding eight thousand five hundred pounds from being assessed sales tax and it would further exempt, for fiscal year 2009, sales of new motor vehicles designed to operate on eighty-five percent ethanol fuel from sales tax. However, MDC is unable to provide the estimated amount and will rely on DOR for the fiscal impact of this legislation.

Officials from the **Department of Natural Resources** (DNR) assume this proposal would have no significant impact on their organization.

Officials from the **Department of Revenue** (DOR) assume this proposal would increase the number and amount of tax credits, deductions, and exemptions available and would therefore reduce total state revenues. This proposal would define a taxpayer as a person, firm, partner in a firm, corporation, or shareholder in an S corporation subject to the tax imposed by chapter 143, except withholding tax.

ASSUMPTION (continued)

E-85 Vehicle Conversion Kits

Beginning on or after January 1, 2008, a taxpayer would be allowed to claim a tax credit in an amount equal to 25% of the amount such taxpayer paid to purchase and install an E-85 conversion kit on a motor vehicle. The total amount of tax credits issued could not exceed $500,000, excess tax credits could be carried forward for 3 succeeding years, and the credit would be transferable. DOR would promulgate rules for the program.

This provision would require changes to the MO-TC form and system changes would be required in MINITS, CAFÉ, and COINS.

Hybrid Vehicle Purchases

Beginning on January 1, 2009, any taxpayer who purchases a qualified hybrid vehicle would be allowed to subtract from the taxpayer's Missouri adjusted gross income an amount equal to $1,500 or 10% of the purchase price of the vehicle, whichever is less, for the tax year in which the taxpayer purchases the vehicle. DOR would determine the means by which the taxpayer is to document the purchase in order to claim the deduction, and DOR would promulgate rules for the program.

This provision would add a line to the MO-A and require system changes to MINITS, speed-up, and COINS.

E-85 Fuel Purchases

Beginning on or after January 1, 2009, a taxpayer who purchases E-85 gasoline would be allowed to claim a tax credit against income tax otherwise due, excluding withholding tax, in the following manner:

* For calendar year 2009, the credit would be equal to 25 cents per gallon of E-85 gasoline or 5 cents per gallon of biodiesel or biodiesel-blended fuel purchased by the taxpayer.

* For calendar years 2010 and 2011, the credit would be equal to 20 cents per gallon of E-85 gasoline or 3 cents per gallon of biodiesel or biodiesel-blended fuel purchased by the taxpayer.

ASSUMPTION (continued)

* For calendar year 2012 and each subsequent calendar year, the credit would be equal to 15 cents per gallon of E-85 gasoline or 5 cents per gallon of biodiesel or biodiesel-blended fuel purchased by the taxpayer.

A taxpayer's minimum claim would be $50 and could not exceed $500. The credit would n not be refundable but could be carried forward 3 subsequent years. The aggregate amount of credits redeemed in a fiscal year could not exceed $500,000. The taxpayer could take the deduction even if they do not itemize their deductions. The Department of Revenue would promulgate rules for this provision.

This tax credit program would require an additional line on the MO-TC form and system changes would be required in MINITS and COINS.

Diesel Vehicle Purchases

The proposal would provide a sales and use tax exemption for purchases of new diesel-powered motor vehicles with a gross vehicle rating not exceeding eight thousand five hundred pounds.

Flex Fuel Vehicle Purchases

The proposal would provide an exemption from state sales tax in FY 2009 for purchases of new motor vehicles designed to operate on eighty-five percent ethanol fuel.

This provision would require changes to the TRIPS, GRS, and Titles systems and, based on the assumption that this exemption would also apply to leases of motor vehicles, changes to the MITS system would be required. This provision would not exempt the purchase from local sales taxes.

State Fiscal Impact

There would be an unknown decrease in motor vehicle state sales tax during Fiscal Year 2009 as all new vehicles designed to operate on E-85 would be exempted from state sales tax.

During Fiscal Year 2007 there were 11,222 new flex fuel motor vehicles titled resulting in the collection of $7,627,741 in state sales tax. Based on the new incentive for fiscal year 2009, the department has no reason to believe this number would decrease but may in fact increase.

ASSUMPTION (continued)

The sales tax exemption for sales of new diesel-powered motor vehicles with a gross weight exceeding eight thousand five hundred pounds would result in a decrease in motor vehicle state sales tax revenues estimated at $2,359,840 each fiscal year. In addition to the state decrease, there would be a decrease in local revenues estimated at $2,217,335 each fiscal year.

Administrative Impact

DOR assumes that implementing the provisions of this proposal would require

* 1 FTE Processing Technician I for every 4,000 E-85 conversion kit credits claimed;

* 2 FTE Temporary Tax Employees for key-entry, 1 FTE Tax Processing Technician I for every additional 19,000 returns verified, and 1 Tax Processing Technician I for every additional 2,400 pieces of correspondence related to the hybrid vehicle purchase deduction provision;

* 1 FTE Tax Processing Technician I for every 4,000 E-85 or biodiesel fuel purchase credits claimed; and

* 1 FTE Tax Collections Technician I for every additional 15,000 contacts, annually, on the delinquent tax phone line, 1 FTE Tax Collections Technician I for every additional 24,000 contacts, annually, on the income tax line, and 3 FTE Tax Processing Technician I for every additional 4,800 contacts in the field offices related to the E-85 or biodiesel fuel tax credit program. Customer Assistance anticipates the increase in contacts would be significant enough to request 1 Tax Processing Technician I for each of the larger field offices in Kansas City, St. Louis, and Springfield.

DOR officials also provided an estimate of the IT cost to implement this proposal. The Office of Administration Information Technology Services Division (ITSD/DOR) assumes the IT portion of this request could be accomplished with existing resources; however, if priorities shift, additional FTE or overtime would be needed to implement this proposal. ITSD/DOR estimates that this legislation could be implemented utilizing 2 existing CIT III for 3 months for modifications to MINITS, 4 existing CIT III for 1 month for modifications to COINS, CAFÉ, Corporate E-file, and the Data Warehouse, and 1 CIT III for 2 months for the motor vehicle system modifications for a total estimated cost of $50,232.

ASSUMPTION (continued)

In summary, DOR provided an estimated cost to implement this proposal including nine additional FTE, with related equipment and expenditures, totaling $353,263 for FY 2009, $376,614 for FY 2010, and $387,910 for FY 2011.

Oversight has, for fiscal note purposes only, changed the starting salary the additional positions 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 has also adjusted the DOR estimate of equipment and expenditures in accordance with OA budget guidelines, and Oversight assumes that a limited number of additional employees in a given location could be accommodated in existing office space. If unforeseen expenses are incurred or if multiple provision are enacted which increase the DOR workload, resources could be requested through the budget process.

Officials from the **Department of Transportation** (MODOT) assume this proposal would exempt diesel powered vehicles with a gross weight less than 8500 lbs from sales tax, and would exempt new vehicles that can operate on 85% ethanol/15% gasoline fuel from sales tax in FY 2009.

Based on 2007 motor vehicle registrations, 191 trucks diesel powered trucks up to 6000 pounds GVW were sold, 75 passenger vehicles with diesel power were sold, and half (737) of vehicles registered 6-12 thousand pounds GVW sold were diesel powered. MODOT assumes the number of new qualified diesel powered vehicle registrations would double the first year after the exemption is implemented due to more demand for diesel powered vehicles, and would grow 10% the next year and then stay constant. The average taxable price per vehicle was $20,000 at the 4.225% state tax rate.

MODOT assumes that 10,000 E85 powered vehicles would be sold in FY 2009, at an average vehicle price of $11,800 and the state sales tax rate of 4.225%.

MODOT provided calculations of the estimated revenue reductions for the various state funds involved.

ASSUMPTION (continued)

Governmental Unit	FY 2009	FY 2010	FY 2011
MODOT	$4,333,255	$1,323,960	$1,323,960
School District Trust Fund	$722,209	$220,660	$220,660
Local Governments	$722,209	$220,660	$220,660
Conservation Commission Fund	$180,552	$55,165	$55,165
Parks, and Soil and Water Funds	$144,442	$44,132	$44,132

Oversight will use the MODOT estimate of fiscal impact for the purposes of this fiscal note although the fiscal impact could be larger if federal and state incentives increase the number of qualifying vehicles purchased.

FISCAL IMPACT - State Government	FY 2009 (10 Mo.)	FY 2010	FY 2011
GENERAL REVENUE FUND			
Revenue reductions			
E-85 conversion kit tax credits	($500,000)	($500,000)	($500,000)
Hybrid vehicle purchase tax deductions	($261,000)	($261,000)	($261,000)
E-85 fuel tax purchase tax credits	($500,000)	($500,000)	($500,000)
Totals	($1,261,000)	($1,261,000)	($1,261,000)
Cost - Department of Revenue			
Personal Service (9 FTE)	($165,150)	($204,125)	($201,249)
Temporary employees	($13,390)	($16,550)	($17,047)
Fringe Benefits	($78,950)	($97,583)	($100,510)
Expense and Equipment	($49,934)	($4,663)	($4,803)
Totals	($307,424)	($322,921)	($323,609)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**($1,568,424)**	**($1,583,921)**	**($1,586,609)**
Estimated Net FTE Effect on General Revenue Fund	9	9	9
SCHOOL DISTRICT TRUST FUND			
Revenue reduction - sales tax exemption	($722,209)	($220,660)	($220,660)
ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND	**($722,209)**	**($220,660)**	**($220,660)**
CONSERVATION COMMISSION FUND			
Revenue reduction - sales tax exemption	($180,552)	($55,165)	($55,165)
ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND	**($180,552)**	**($55,165)**	**($55,165)**

FISCAL IMPACT - State Government	FY 2009 (10 Mo.)	FY 2010	FY 2011
PARKS, AND SOIL AND WATER FUNDS			
Revenue reduction - sales tax exemption	($144,442)	($44,132)	($44,132)
ESTIMATED NET EFFECT ON PARKS, AND SOIL AND WATER FUNDS	**($144,442)**	**($44,132)**	**($44,132)**
ROAD FUND			
Revenue reduction - sales tax exemption	($2,476,146)	($756,549)	($756,549)
ESTIMATED NET EFFECT ON ROAD FUND	**($2,476,146)**	**($756,549)**	**($756,549)**
ROAD BOND FUND			
Revenue reduction - sales tax exemption	($1,807,586)	($552,280)	($552,280)
ESTIMATED NET EFFECT ON ROAD BOND FUND	**($1,807,586)**	**($552,280)**	**($552,280)**
TRANSPORTATION FUND			
Revenue reduction - sales tax exemption	($49,523)	($15,131)	($15,131)
ESTIMATED NET EFFECT ON TRANSPORTATION FUND	**($49,523)**	**($15,131)**	**($15,131)**

FISCAL IMPACT - Local Government	FY 2009 (10 Mo.)	FY 2010	FY 2011
LOCAL GOVERNMENTS			
Revenue reduction - sales tax exemption	($722,209)	($220,660)	($220,660)
ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS	**($722,209)**	**($220,660)**	**($220,660)**

FISCAL IMPACT - Small Business

This proposal could have a direct impact on businesses which purchase or sell qualified vehicles.

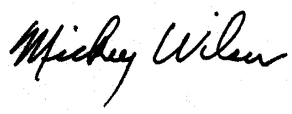
FISCAL DESCRIPTION

This proposal would create various tax incentives for certain energy uses.

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

Office of the Secretary of state
Office of Administration
Division of Budget and Planning
Department of Conservation
Department of Natural Resources
Department of Revenue
Department of Transportation



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