

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3578-01
Bill No.: HB 1410
Subject: Agriculture and Animals; Energy; Motor Fuel; Revenue Department
Type: Original
Date: February 22, 2010

Bill Summary: This proposal authorizes an income tax credit for taxpayers who use processed biomass engineered fiber fuel.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
General Revenue	\$0	(More than \$42,801)	(More than \$38,312)
Total Estimated Net Effect on General Revenue Fund	\$0	(More than \$42,801)	(More than \$38,312)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
General Revenue	0	1 FTE	1 FTE
Total Estimated Net Effect on FTE	0	1 FTE	1 FTE

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 2011	FY 2012	FY 2013
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Agriculture** assume the proposal would not fiscally impact their agency.

Officials from the **Office of Administration - Budget and Planning (BAP)** state this proposal provides a tax credit for purchasing qualified processed biomass engineered fiber fuel. Officials at the DNR suggest this fuel may be similar in nature and usage to wood pellets.

According to the US Energy Information Administration, demand for "biomass energy" (wood, wood-derived fuels, and waste) in Missouri in 2007 was 20.5 trillion BTUs.

Qualifying fuels for this credit must produce 7500 BTUs per pound, or 15M BTUs per ton. This implies the maximum demand for this fuel in this state would be 1.367M tons.

According to the Pellet Fuels Institute, pellet fuels cost \$275/ton. Thus, the maximum purchases of these fuels may be \$375.8M. At 30%, the tax credit may reduce general and total state revenues up to \$112.8M. There is no annual cap placed on this tax credit.

Officials from the **Department of Revenue (DOR)** state the proposal:

- Beginning January 1, 2011, a tax credit is authorized for using processed biomass engineered fiber fuel;
- The credit will be based on the following percentages:

• The year the fuel was purchased and used:	30%
• The 2nd year the fuel was purchased and used:	25%
• The 3rd year the fuel was purchased and used:	20%
• The 4th year the fuel was purchased and used:	15%
• The 5th year the fuel was purchased and used:	10%
• The 6th year the fuel was purchased and used:	5%
- No tax credits will be issued after the sixth year;
- Credit cannot exceed the state tax liability;
- Credit is not refundable, nor can it be transferred, sold or assigned, but it can be carried forward four subsequent years;
- The Department of Revenue may create rules to implement these provisions;
- The section will sunset December 31, six years after the effective date unless reauthorized by the General Assembly;

ASSUMPTION (continued)

- The Department and ITSD-DOR will need to make programming changes to the Missouri Individual Income Tax System (MINITS);
- The Department will need to make forms changes;
- PC-Based System for Individual Income Tax Returns (Speed up) will require changes;
- If this product is a motor fuel, then programming changes would need to be made to motor fuel tax system, forms would need to be revised and information bulletins would need to be sent to licensees.

DOR's Personal Tax section assumes the need for one Revenue Processing Technician I per 4,000 credits claimed. DOR assumes the cost of this additional FTE to be roughly \$43,000 per year.

DOR also states their response to a proposal similar to or identical to this one in a previous session indicated the department planned to absorb the administrative costs to implement the proposal. Due to budget constraints, reduction of staff and the limitations within the department's tax systems, changes cannot be made without significant impact to the department's resources and budget. Therefore, the IT portion of the fiscal impact is estimated with a level of effort valued at \$22,205 (3 FTE for 1 month (Business) and 1 FTE for 2 months (Individual) at \$4441 per month to make updates to the corporate income tax return system (COINS) and the individual income tax return system (MINITS)).

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

Oversight assumes DOR's estimate of expense and equipment cost for the new FTE could be overstated. If DOR is able to use existing desks, file cabinets, chairs, etc., the estimate for equipment for fiscal year 2012 could be reduced by roughly \$5,600. Oversight assumes the earliest that the new tax credits would be filed with the Department of Revenue would be January 2012 (of FY 2012). Therefore, Oversight will assume DOR will not require the additional FTE in FY 2011 and for only six months out of FY 2012.

Oversight has, for fiscal note purposes only, changed the starting salary for DOR's Revenue Processing Technician 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 and policy of the Oversight Subcommittee of the Joint Committee on Legislative Research.

ASSUMPTION (continued)

Officials from the **Office of the Secretary of State (SOS)** assume 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 Secretary of State's Office 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, 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.

This proposal defines Processed biomass engineered fiber fuel as any fuel derived from substances produced in this state that were changed from their original form and combined in a manufacturing process in this state of three or more biomass inputs, resulting in a fuel product with a heat value of at least 7,500 BTUs per pound. **Oversight** is unaware of the quantity of this product produced in the state, what the product costs the end user (who actually gets the credit) and how quickly additional manufacturers could start producing a qualifying product. There is no annual limit to this program; therefore, Oversight will assume an UNKNOWN amount of tax credits will be issued from this new program. The start date for the credit is for taxable years beginning on or after January 1, 2011; therefore, Oversight will assume the credits may be claimed starting in January 2012, or FY 2012.

Oversight assumes this proposal would have some positive economic benefits to processed biomass engineered fiber fuel producers and users; however, Oversight considers these benefits to be an indirect effect of the proposal and have not reflected them in the fiscal note.

This proposal would reduce Total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2011 (10 Mo.)	FY 2012	FY 2013
GENERAL REVENUE			
<u>Costs - DOR</u>			
Personal Service (1 FTE)	\$0	(\$12,031)	(\$24,783)
Fringe Benefits	\$0	(\$6,309)	(\$12,996)
Expense and Equipment	<u>\$0</u>	<u>(\$6,122)</u>	<u>(\$533)</u>
<u>Total Costs - DOR</u>	<u>\$0</u>	<u>(\$42,801)</u>	<u>(\$38,312)</u>
FTE Change - DOR	0 FTE	1 FTE	1 FTE
<u>Loss - DOR</u>			
Tax credit for using processed biomass engineered fiber fuel - for all taxable years beginning on or after 1/1/2011	\$0	(Unknown)	(Unknown)
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	<u>\$0</u>	(More than <u>\$42,801</u>)	(More than <u>\$38,312</u>)
Estimated Net FTE Change for General Revenue	0 FTE	1 FTE	1 FTE
<u>FISCAL IMPACT - Local Government</u>	FY 2011 (10 Mo.)	FY 2012	FY 2013
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

Small businesses who produce or consume processed biomass engineered fiber fuel would be positively impacted by this proposal.

FISCAL DESCRIPTION

Beginning January 1, 2011, this bill authorizes an income tax credit for taxpayers who use "processed biomass engineered fiber fuel" which is defined as any fuel derived from substances produced in this state that were changed from their original form and combined in a manufacturing process in this state of three or more biomass inputs, resulting in a fuel product with a heat value of at least 7,500 British Thermal Units (BTUs) per pound. The credit will be 30% of the purchased price of the fuel for the first year; 25% the second year; 20% the third year; 15% the fourth year; 10% the fifth year; and 5% the sixth year. The credit is not refundable and cannot be transferred, but can be carried forward for four years.

The provisions of the bill will expire December 31 six years from 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 Agriculture
Department of Revenue
Office of Administration - Budget and Planning
Office of the Secretary of State
Department of Natural Resources



Mickey Wilson, CPA
Director
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