

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 0388-04  
Bill No.: HCS for HB 83  
Subject: Agriculture and Animals; Energy; Motor Fuel; Revenue Department  
Type: Original  
Date: April 10, 2013

Bill Summary: This proposal authorizes an income tax credit for a taxpayer who uses processed biomass engineered fiber fuel.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
General Revenue	(\$3,294,970 to \$8,294,970)	(\$3,294,970 to \$13,294,970)	(\$3,294,970 to \$13,294,970)
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>(\$3,294,970 to \$8,294,970)</b>	<b>(\$3,294,970 to \$13,294,970)</b>	<b>(\$3,294,970 to \$13,294,970)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
<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 7 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</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 2014</b>	<b>FY 2015</b>	<b>FY 2016</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 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

## FISCAL ANALYSIS

### ASSUMPTION

#### § 135.305 Wood Energy

Officials at the **Office of Administration - Budget and Planning (BAP)** assume this proposal extends the wood energy tax credit until 6/30/18. This proposal will reduce General and Total State Revenues up to \$3.5 million annually.

Officials at the **Department of Natural Resources** would not expect a direct fiscal impact from this proposal.

**Oversight** notes according to the Tax Credit Analysis submitted by the Department of Natural Resources regarding this program, the Wood Energy tax credit program had the following activity;

	FY 2010	FY 2011	FY 2012
Amount Issued	\$3,204,481	\$3,269,364	\$3,060,710
Amount Redeemed	\$1,546,453	\$3,818,378	\$2,282,401

**Oversight** assumes this tax credit was to expire on June 30, 2013 (FY 2013) and did not have an annual cap. This part of the proposal extends this credit and adds an annual cap of \$3.5 million annually. Oversight will reflect the amount of reduced revenue to the State as equal to the average amount issued over the last five years (\$3,294,970).

#### § 135.315 Processed Biomass Engineered Fiber Fuel

Officials at the **Office of Administration - Budget and Planning** assume this proposal provides a tax credit for purchasing qualified processed biomass engineered fiber fuel. Officials at DNR suggest this fuel may be similar in nature and usage to wood pellets. However, BAP does not have data on the supply of or demand for wood pellets in MO. This proposal includes an annual cap of \$5 million. Therefore, General and Total State Revenues may be reduced by this amount.

Officials at the **Department of Natural Resources** would not expect a direct fiscal impact from this proposal.

In response to a previous version of this proposal, officials at the **Department of Revenue (DOR)** assumed this proposal would require them to make form changes and computer programming changes to various tax systems. The estimated cost of these changes is \$4,544 for 168 FTE hours. Additionally, DOR's Personal Tax Division estimates it will require one Revenue Processing Technician I (\$25,884) per 4,000 credits claimed.

ASSUMPTION (continued)

**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 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.

**Oversight** assumes that since it is unclear how many individuals would qualify for the tax credit; therefore, DOR could absorb this proposal with existing resources. Should the number of credits reach the level where a new FTE would be necessary (4,000 credits) then DOR could make the request through the appropriation process.

**Oversight** assumes this part of the proposal creates the biomass fiber fuel tax credit beginning January 1, 2014 (FY 2014). This credit has a \$5 million annual cap. Oversight will reflect the amount of reduced revenue to the State as equal to \$0 (no credits issued) to the annual cap.

§ 135.1590 Milk Credit

Officials at the **BAP** assume this proposal creates a tax credit for qualified milk producers. The program is capped at \$5 million annually. This proposal will reduce General and Total State Revenues by up to this amount annually.

Officials at the **Department of Agriculture** assume there are currently about 930 Grade A milk producers in Missouri. Assuming approximately 75 percent of those producers apply for the tax credit, and assuming a processing and handling cost of \$25 per application, total costs to administer the program would equal \$17,437 in FY15 (930 producers X 0.75 X \$25 = \$17,437).

Officials at the **Department of Natural Resources** would not expect a direct fiscal impact from this proposal.

**Oversight** assumes that since it is unclear how many individuals would qualify for the tax credit; therefore, Department of Agriculture could absorb this proposal with existing resources. Should the number of applicants reach a significant number then Department of Agriculture could seek additional resources through the appropriation process.

**Oversight** assumes this part of the proposal creates the Milk tax credit beginning January 1, 2013 (FY 2013). This credit has a \$5 million annual cap. Oversight will reflect the amount of reduced revenue to the State as equal to \$0 (no credit issued) to the annual cap.

Bill as a Whole

Officials at the **Joint Committee on Administrative Rules** assume this proposal has no fiscal impact on their agency.

ASSUMPTION (continued)

**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.

In response to a previous version, officials from the **Office of the Secretary of State (SOS)** state 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 recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, the SOS also recognizes 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 the office can sustain with the core budget. Therefore, the SOS reserves 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.

**Oversight** assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process.

<u>FISCAL IMPACT - State Government</u>	FY 2014 (10 Mo.)	FY 2015	FY 2016
<b>GENERAL REVENUE</b>			
<u>Revenue Reduction</u> - extension of the wood energy tax credit § 135.305	(\$3,294,970)	(\$3,294,970)	(\$3,294,970)
<u>Revenue Reduction</u> - creation of the processed biomass engineered fiber fuel tax credit § 135.315	\$0	\$0 to (\$5,000,000)	\$0 to (\$5,000,000)
<u>Revenue Reduction</u> - creation of the Milk tax credit §135.1590	\$0 to (\$5,000,000)	\$0 to (\$5,000,000)	\$0 to (\$5,000,000)
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE</b>	<b>(\$3,294,970 to <u>\$8,294,970</u>)</b>	<b>(\$3,294,970 to <u>\$13,294,970</u>)</b>	<b>(\$3,294,970 to <u>\$13,294,970</u>)</b>

<u>FISCAL IMPACT - Local Government</u>	FY 2014 (10 Mo.)	FY 2015	FY 2016
<u>FISCAL IMPACT - Small Business</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

Small businesses that can claim any of these credits could be positively impacted.

FISCAL DESCRIPTION

Beginning January 1, 2014, this bill authorizes an income tax credit for any taxpayer who uses “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 in which the fuel was purchased and used; 25% for the second year; 20% for the third year; 15% for the fourth year; 10% for the fifth year; and 5% for the sixth year. No tax credit will be issued after the sixth year in which the fuel was purchased and used. The amount of the credit cannot exceed the amount of the taxpayer's state tax liability for the tax year for which the credit is claimed, is not refundable, and cannot be transferred but can be carried forward for four years.

The provisions of the bill will expire six years after the effective date.

This bill extends the wood energy tax credit.

This bill creates the Show-Me Milk and Infrastructure Stabilization Act.

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 Natural Resources  
Department of Revenue  
Joint Committee on Administrative Rules  
Office of Administration  
    Budget and Planning  
Office of the Secretary of State



Ross Strobe  
Acting Director  
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