COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0975-04
Bill No.: Truly Agreed To and Finally Passed SS for HB 184
Subject: Counties; Taxation and Revenue - General
Type: Original
Date: June 7, 2013

Bill Summary: This proposal modifies provisions relating taxation.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
General Revenue*	$0 to (Unknown greater than $27,634,362)	$0 to (Unknown greater than $30,466,823)	$0 to (Unknown greater than $51,669,480)
Total Estimated Net Effect on General Revenue Fund	**$0 to (Unknown greater than $27,634,362)**	**$0 to (Unknown greater than $30,466,823)**	**$0 to (Unknown greater than $51,669,480)**

Note: §§ 620.2000 - 620.2020 - The fiscal note 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.

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

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Total Estimated Net Effect on <u>Other</u> State Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Total Estimated Net Effect on <u>All</u> Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Total Estimated Net Effect on FTE	**0**	**0**	**0**

☐ 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 2014	FY 2015	FY 2016
Local Government	**More than $100,000**	**More than $100,000**	**More than $100,000**

FISCAL ANALYSIS

ASSUMPTION

§§ 32.087, 144.020, 144.021, 144.069, 144.071, 144.440, 144.450, 144.455, 144.525, 144.610, 144.613, and 144.615 - Local Sales and Use Tax:
In response to a previous version of this proposal, officials from the **Office of Administration - Division of Budget and Planning (BAP)** assumed this proposal would not result in additional costs or savings to their organization.

BAP officials stated the proposal would, if enacted, impose local sales taxes on motor vehicle sales by an out-of-state seller to a Missouri buyer. The proposal would have no impact on state revenues, because of the existing state use tax. However, the proposal would increase local revenues for subdivisions that do not currently impose a use tax. The Department of Revenue may have data on any estimated increases. BAP officials noted the proposal may impact the limit imposed in Article X, Section 18(e).

Officials from the **Department of Revenue (DOR)** assumed in a previous version of this proposal that it is unknown whether additional “in state" sales would be made as a result of this proposal, but the proposal would likely increase local revenues. DOR officials provided an estimate of the IT impact to implement this proposal of $10,495 based on 388 hours of programming to make changes to DOR systems.

Oversight assumes OA - ITSD (DOR) is provided with core funding to handle a certain amount of activity each year. Oversight also 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 notes that DOR officials did not include an estimate of any other costs associated with implementing this proposal and assumes this proposal could be implemented with existing resources.

Officials from the **Department of Natural Resources (DNR)** assume this proposal eliminates state and local use taxes on storage, use or consumption of motor vehicles, trailers, boats or outdoor motors. The Department’s Parks and Soils Sales Tax Funds are derived from one-tenth of one percent state sales and use tax pursuant to the Constitution. The department assumes DOR would be better able to estimate the anticipated fiscal impact on state sales tax affecting the Parks and Soils Sales Tax Fund.

ASSUMPTION (continued)

Officials from the **City of Kansas City** noted that their organization has a local use tax; therefore, this proposal would not increase their revenues.

Officials from the **City of Columbia**, **Department of Conservation**, **Department of Elementary and Secondary Education**, **Department of Higher Education**, **Parkway School District** and the **Office of State Treasurer** each assume no fiscal impact from this proposal on their organization.

Oversight assumes this proposal would have a positive fiscal impact on local governments which currently have a sales tax but no local use tax, and are no longer able to enforce the local use tax on purchases of motor vehicles, boats, and motors outside the state of Missouri.

This proposal includes a requirement for local governments (except those in which voters have previously approved a local use tax) to hold an election to approve the repeal of the local sales tax on sales which are not subject to state sales tax. The election may be held as early as the November 2014 general election but must be held no later than the November 2016 general election. If the local government does not hold the election or if the voters approve the repeal of the local sales tax, the sales tax could not be applied to subsequent sales.

Oversight assumes that the number and aggregate amount of underlying sales transaction would indicate a fiscal impact greater than $100,000 for local governments and will include that impact in this fiscal note. Oversight has no information as to which governments would be subject to the election requirement and will indicate unknown costs for local government elections in FY 2015 and FY 2016. Oversight assumes the cumulative amount of additional revenue realized by local governments would be greater than the election costs.

§ 67.1010 - Use of Transient Guest Tax in Pettis County:
In response to a previous version of this proposal, officials from **Pettis County** indicated that the proposal would lead to increased sales tax revenues. Allowing the Pettis County Tourism Commission to use a portion of the transient guest tax for salaries will insure that tourism marketing for Sedalia and Pettis County will be done in a professional manner. Employing marketing professionals and support staff has the potential to bring in additional visitors for more and larger events from a larger geographical area, therefore increasing sales tax revenues for Pettis county and all the municipalities located therein.

Pettis County assumes that an average visitor to the county spends $58.00 per day and those funds roll over 1.6 times. The county estimates the increase in potential sales tax revenue over a

ASSUMPTION (continued)

three year period to be $125,280.

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

Oversight assumes this proposal would remove the current prohibition on using revenues from this tax on salaries. Since this proposal would not increase or decrease revenues or expenditures, it would appear to have no direct fiscal impact on local government funds.

§ 135.960 - Enhanced Enterprise Zones
Oversight assumes this part of the proposal would not have a fiscal impact since benefits under the program are expired within §620.2020.13.

§§ 620.2000 - 620.2020 - Missouri Works:
In response to similar legislation filed this year, SB 323, officials at the **Office of Administration - Budget and Planning** assumed this proposal creates the Missouri Works business incentive program, which sunsets four current business incentive programs and creates one new incentive program. The cap for the new Missouri Works program is $106 million in FY14, $111 million in FY15, and $116 million in FY15 and beyond. This proposal could therefore lower General and Total State Revenues by the amounts listed. There may also be an impact to the Article X, section 18e calculation.

BAP assumed the legislation sunsets the following tax credit programs: Missouri Quality Jobs, Enhanced Enterprise Zone, Development, and Rebuilding Communities. The aggregate cap on tax credits for the programs being phased out under this proposal totals at least $118 million annually. The negative impact noted above could be offset by the amount the sunset programs have been utilized historically.

BAP stated with the existing Missouri Quality Jobs program, retained withholding benefits would not be subject to the annual tax credit cap under this proposal. This will have an unknown negative impact on General and Total State Revenues.

BAP assumed the new Missouri Works program may encourage other economic activity, but BAP did not have data to estimate induced revenues. The Department of Economic Development may have such an estimate.

ASSUMPTION (continued)

Officials from the **Department of Economic Development (DED)** assumed the proposal would not fiscally impact their agency.

However, in response to similar legislation filed this year, SB 323, **DED** assumed section 135.960 revises the Enhanced Enterprise Zone program to allow the majority vote of members of the governing authority to adopt an ordinance or resolution to designate an Enhanced Enterprise Zone. This removes DED from the authorization process of EEZs, which DED assumes will have an unknown positive impact.

DED assumed this bill creates the Missouri Works Program to be administered by DED's Division of Business and Community Services (BCS). The Missouri Works program would operate in a similar fashion to the current Missouri Quality Jobs program by providing performance-based benefits in the form of retained withholding taxes and tax credits to qualified companies that create new jobs. The proposal also authorizes the award of additional discretionary tax credits to qualified companies that create jobs and investment that provide a net fiscal benefit to the state, similar to the existing BUILD program.

DED stated the Missouri Works proposal mandates a positive net fiscal benefit to the state for any award of discretionary tax credits and requires DED to report quarterly to the General Assembly the positive net fiscal benefit of each project awarded, which will ensure that discretion is exercised in accordance with this directive.

DED stated the Missouri Works Program proposal phases-out four current business incentive tax credit programs, which include: Missouri Quality Jobs (620.1875), Enhanced Enterprise Zone (135.950), Development Tax Credit (32.100), and the Rebuilding Communities Tax Credit (135.535). Projects previously offered benefits under these programs may continue to receive such benefits, but no new awards may be made under these programs.

ASSUMPTION (continued)

DED stated the aggregate cap on tax credits for the programs being phased out under this proposal totals at least $118 million annually. The proposed Missouri Works program imposes a hard cap on tax credits that reaches $116 million when fully phased-in. However, recognizing the outstanding obligations under the current programs being phased out, the proposal reduces the annual statutory caps by the amount of the existing tax credit obligations under the current programs.

Fiscal Year	Missouri Works Maximum Annual Tax Credit Cap	Current Obligations under existing Programs	Remaining Effective Annual Tax Credit Cap
FY14	$106,000,000	$78,365,638	$27,634,362
FY15	$111,000,000	$80,533,177	$30,466,823
FY16	$116,000,000	$64,330,520	$51,669,480

The chart below reflects the statutory maximum annual statutory tax credit cap under the proposal and the annual caps of the four programs being phased out.

SUNSETS	
Quality Jobs (E)*	$80 M
Enhanced Enterprise Zone (D)*	$24 M
Development Tax Credit (D)	$6 M
Rebuilding Communities (E)	$8 M
Total Current Caps	$118 M

*E= Entitlement, *D = Discretionary

Missouri Works
(Annual tax credit cap)
FY 14 = $106 M
FY 15 = $111 M
FY 16 = $116 M

DED stated it is unknown how many qualified companies would seek and be eligible for benefits under this program. With respect to the entitlement benefits under this proposal, DED estimates an unknown positive fiscal impact of greater than $100,000, because projects awarded such

ASSUMPTION (continued)

benefits are anticipated to provide an overall net fiscal benefit to the state, even if not every individual project would have a net fiscal benefit to the state. Similarly, DED estimates a positive fiscal impact of greater than $100,000 for any discretionary tax credits awarded under this proposal because the award of any such tax credits is restricted to projects having a net fiscal benefit to the state.

Officials at the **Department of Revenue** (**DOR**) assume this proposal would require them to make form changes and programming changes to various tax systems. These changes are estimated to cost $22,722 for 840 FTE hours.

DOR assumes the Personal Tax Division will need one Revenue Processing Technician I ($25,884) per 4,000 tax credits redeemed. The Corporate Tax Division will need one Revenue Processing Technician I ($25,884) per 6,000 tax credits redeemed. Withholding Division will need one Revenue Processing Technician I ($25,884) per 7,800 pieces of additional withholding correspondence processed.

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 DOR's Personal, Corporate and Withholding Tax Divisions could absorb the responsibilities of this tax credit with existing resources. Should DOR experience the number of additional tax credit redemptions to justify another FTE they could seek that FTE through the appropriation process.

Officials at the **Department of Insurance, Financial Institutions and Professional Registration** assumed an unknown reduction of premium tax revenues as a result of the establishment of the Missouri Works Program tax credit reform is possible. Premium tax revenue is split 50/50 between General Revenue and County Foreign Insurance Fund except for domestic Stock Property and Casualty Companies who pay premium tax to the County Stock Fund. The County Foreign Insurance Fund is later distributed to school districts through out the state. County Stock Funds are later distributed to the school district and county treasurer of the county in which the principal office of the insurer is located. It is unknown how each of these funds may be impacted by tax credits each year.

ASSUMPTION (continued)

DIFP will require minimal contract computer programming to add this new tax credit to the premium tax database and can do so under existing appropriation. However, should multiple bills pass that would require additional updates to the premium tax database, the department may need to request more expense and equipment appropriation through the budget process.

Oversight assumes it is unclear how many companies will qualify for the withholding tax portion of the proposal, so the fiscal note will reflect the cost to General Revenue as $0 to Unknown. Since the tax credits are capped each fiscal year and the number of unobligated credits is known, **Oversight** will show the loss of the tax credit revenue to General Revenue as $0 to the unobligated amount.

Oversight assumes the creation of this new program outlined in this proposal may have a positive impact on the state. However, Oversight considers this to be indirect impact of the proposal and will not reflect it in this fiscal note.

FISCAL IMPACT - State Government	FY 2014 (10 Mo.)	FY 2015	FY 2016
GENERAL REVENUE			
Revenue Reduction - Withholding Taxes §§ 620.2000 - 620.2020	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
Revenue Reduction - Tax Credits §§ 620.2000 - 620.2020	$0 to ($27,634,362)	$0 to ($30,466,823)	$0 to ($51,669,480)
ESTIMATED NET EFFECT ON GENERAL REVENUE	**$0 to (Unknown greater than $27,634,362)**	**$0 to (Unknown greater than $30,466,823)**	**$0 to (Unknown greater than $51,669,480)**

Note: §§ 620.2000 - 620.2020 - The fiscal note 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.

FISCAL IMPACT - Local Government	FY 2014 (10 Mo.)	FY 2015	FY 2016
LOCAL GOVERNMENTS			
Additional Revenue - Motor Vehicle Sales Tax - §§ 32.087 and 144.020 - 144.615	More than $100,000	More than $100,000	More than $100,000
Costs - Elections - §§ 32.087 and 144.020 - 144.615	$0	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS	**More than $100,000**	**More than $100,000**	**More than $100,000**

FISCAL IMPACT - Small Business

§§ 32.087, 144.020, 144.021, 144.069, 144.071, 144.440, 144.450, 144.455, 144.525, 144.610, 144.613, and 144.615 - Local Sales and Use Tax:

Small businesses, in areas of the state that do not have a local use tax, that sell motor vehicles, trailers, boats, and/or outboard motors could be positively impacted by this proposal.

§ 67.1010 - Use of Transient Guest Tax in Pettis County:

An indirect fiscal impact to small businesses could be expected as a result of this proposal if additional visitors for additional events from a greater geographical area visit Pettis County.

§ 620.2000 - 620.2020 - Missouri Works:

Small businesses could be impacted by the change in the tax credits.

FISCAL DESCRIPTION

This bill changes the laws regarding the sales tax on motor vehicles, the transient guest tax in Pettis County, and enhanced enterprise zones and establishes the Missouri Works Program.

The provisions of the bill regarding the Missouri Works Program expire six years after the effective date.

The provisions of the bill regarding the sales tax on motor vehicles are nonseverable and if any provision is held to be invalid for any reason, the decision will invalidate all of the remaining provisions. If any provision of the Missouri Works Program or its application to any person or circumstance is held invalid, the invalidity cannot affect other provisions or application of the provisions regarding the program.

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

City of Columbia
City of Kansas City
Department of Conservation
Department of Economic Development
Department of Elementary and Secondary Education
Department of Higher Education
Department of Insurance, Financial Institutions and Professional Registration
Department of Natural Resources
Department of Revenue
Office of Administration
  Division of Budget and Planning
Office of State Treasurer
Parkway School District

Ross Strope

KB:LR:OD

Acting Director
June 7, 2013

KB:LR:OD