COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. NO.: 3327-01
BILL NO.: HB 1566
SUBJECT: Economic Development; Taxation and Revenue - General / Income.
TYPE: Original
DATE: February 4, 2000

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
General Revenue	$0 to ($5,500,000)	$0 to ($11,000,000)	$0 to ($11,000,000)
Total Estimated Net Effect on All State Funds	**$0 to ($5,500,00)**	**$0 to ($11,000,000)**	**$0 to ($11,000,000)**

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
None			
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
Local Government	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses
This fiscal note contains 5 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Economic Development (DED)** state that this proposal would decrease the Capital Tax Credit percentages from 40 percent to 30 percent, but leaves 60 percent of the tax credits for investors of businesses located in distressed communities. From the $6 million annual increase to Capital Tax Credit program, at least $4 million is designated for businesses in distressed communities. This proposal would change the ownership percentage and length that investments must stay in the qualified Missouri business if the business is a technology-based business. This proposal also increases Seed Capital Tax Credits from 50 percent to 75 percent of the qualified contribution into a distressed community seed business. Along with the increase in tax credits to $5 million per year, it adds that any unused amounts from Sec. 135.535, RSMo (Rebuilding Communities Tax Credit) and Sec. 620.1450, RSMo (Individual Training Account) will be "rolled" into the credits available for Seed Capital Tax Credits in the following year.

The DED assumes total state revenues could be negatively impacted by $11 million per year. The Capital Tax Credit (Sec. 135.400, RSMo) and the Seed Tax Credit (Sec. 348.300, RSMo) currently have caps on the cumulative amounts of the credits of $13 million and $9 million respectively. The DED assumes these caps have been or will be reached by the time this bill becomes effective, therefore, the $6 million and $5 million allowed for each program per year would be a new cost. The DED assumes there would be no impact from the change to the Rebuilding Communities (Sec. 135.535, RSMo) change since the yearly cap will be met each year. The change will only allow a different clientele to qualify. The impact of the changes to the Individual Training Account (Sec. 620.1450, RSMo) would be no impact since the $6 million yearly cap is also anticipated to be met each year.

Officials from the DED assume the changes to the Rebuilding Communities program would make it easier for other larger businesses to qualify and would include some new qualifying entities. It would also roll unused tax credits forward and allow taxpayers to earn larger credits.

The DED assumes the Capital Tax Credit and the Seed Tax Credits will generate additional work commensurate with the need for one Economic Development Incentive Specialist II ($36,468). DED assumes there would be an appropriation needed for expense and equipment for this person as well.

Officials from the **Department of Revenue (DOR)** state this proposal would change the scope used by the Department of Economic Development on the approval and authorization of tax credits. They state this could increase the number of filers, however, the Department does not anticipate a large increase and therefore, anticipate little or no administrative impact to the DOR.

ASSUMPTION (continued)

Officials from the **Office of Administration** state this proposal will not fiscally impact their agency.

Oversight assumes the Department of Economic Development will be able to authorize and issue the new annual limit on tax credits changed in this proposal with existing resources and will not require the additional FTE and corresponding expenses.

FISCAL IMPACT - State Government	FY 2001 (6 Mo.)	FY 2002	FY 2003
GENERAL REVENUE FUND			
Loss - General Revenue Fund Issuances of Capital Tax Credits	$0 to ($3,000,0000)	$0 to ($6,000,000)	$0 to ($6,000,000)
Loss - General Revenue Fund Issuances of Seed Tax Credits	$0 to ($2,500,0000)	$0 to ($5,000,000)	$0 to ($5,000,000)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**$0 to ($5,500,000)**	**$0 to ($11,000,000)**	**$0 to ($11,000,000)**

FISCAL IMPACT - Local Government	FY 2001 (6 Mo.)	FY 2002	FY 2003
	$0	$0	$0

FISCAL IMPACT - Small Business

This proposal could have a direct fiscal impact to small businesses within a distressed community and receiving a tax credit.

DESCRIPTION

This bill makes various changes to economic development programs relating to distressed communities. The bill:

(1) Reduces the allowable credit percentage for qualified investment in small businesses, other than those located in distressed communities, from 40% of the amount of the investment to 30% and reduces the state-wide limit on all tax credits in a small business from $13 million to $6 million;

(2) Increases the percentage of ownership restriction of investors in technology-based businesses from 50% to 80% for purposes of the small business investment tax credit program;

(3) Decreases the minimum period of time for investment in technology-based businesses from a minimum of 5 years to a minimum of 2 years and excludes any sale, change of control, or the going public of a business from the minimum period of time for investment for purposes of the small business investment tax credit program;

(4) Reduces the percentage of employees required to be located at a business contained within a distressed community from 75% to 60% and increases the maximum number of employees at a business contained within a distressed community from 100 to 150 to qualify for the distressed communities tax credit program;

(5) Allows the leasing of certain technology equipment to qualify as an expense for purposes of obtaining a tax credit and increases the maximum tax credit for such equipment expense from $75,000 to $150,000;

(6) Expands the availability of follow-up capital to include businesses which have previously received follow-up capital within the last 3 years for purposes of tax credits for contributions to innovation centers;

(7) Increases the allowable tax credit percentage of the amount of qualified contribution to a qualified fund for purposes of tax credits for contributions to innovation centers from 50% to 75% and reduces the aggregate maximum state-wide credits for contributions to innovation centers from $9 million to $5 million annually; and

(8) Allows any unused credits for these tax credit programs from the previous year to be added to any state-wide caps for these programs in future years.

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 Economic Development
Department of Revenue
Office of Administration

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Director
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