

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. NO.: 3327-03
BILL NO.: Perfected HS for HCS for HB's 1566 & 1810
SUBJECT: Economic Development; Taxation and Revenue - General / Income.
TYPE: Original
DATE: March 8, 2000

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
General Revenue	\$0 to (\$11,000,000)	\$0 to (\$11,000,000)	\$0 to (\$11,000,000)
Total Estimated Net Effect on <u>All</u> State Funds*	\$0 to (\$11,000,000)	\$0 to (\$11,000,000)	\$0 to (\$11,000,000)

*Revenue losses due to continuation of existing tax credit programs.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
None			
Total Estimated Net Effect on <u>All</u> 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 \$3 million is designated for businesses in distressed communities. This proposal would change the ownership percentage from 50 percent to 20 percent. 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) will have no fiscal 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 Credits and the Seed Tax Credits will generate additional work commensurate with the need for one Economic Development Incentive Specialist II (at \$36,468 annually). DED assumes there would be an appropriation needed for expense and equipment for this person as well.

In response to a similar proposal, officials from the **Department of Revenue (DOR)** stated this 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)

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. Oversight also assumes Capital Tax Credit percentages were not reduced from 40 percent to 30 percent as stated by the DED.

Oversight notes the revenue losses stated for this proposal relate to the continuation of existing tax credit programs.

FISCAL IMPACT - State Government FY 2001 FY 2002 FY 2003

GENERAL REVENUE FUND

<u>Loss</u> - General Revenue Fund	\$0 to	\$0 to	\$0 to
Issuances of Capital Tax Credits	(\$6,000,000)	(\$6,000,000)	(\$6,000,000)

<u>Loss</u> - General Revenue Fund	\$0 to	\$0 to	\$0 to
Issuances of Seed Tax Credits	(\$5,000,000)	(\$5,000,000)	(\$5,000,000)

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	\$0 to	\$0 to	\$0 to
	<u>(\$11,000,000)</u>	<u>(\$11,000,000)</u>	<u>(\$11,000,000)</u>

FISCAL IMPACT - Local Government FY 2001 FY 2002 FY 2003

	\$0	\$0	\$0
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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 substitute makes various changes to economic development programs relating to distressed communities and small business investment tax credits. The substitute:

- (1) Lowers the investment requirement of principal owners of Missouri small businesses eligible for investment from 50% of the business to 20% of the business;
- (2) Changes the statewide limit on all tax credits in a small business from \$13 million to \$6 million per year, with at least \$3 million per year going to businesses in distressed communities;
- (3) Reduces the length of time that a qualified investment must remain in a Missouri small business from five to two 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) Deletes duplicated section RSMo 135.535 from the State Statutes;
- (5) 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;
- (6) 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;
- (7) Determines that the Department of Economic Development may revoke an issued tax credit for false representation to the department or for an application that violates any conditions established by the department;
- (8) 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;
- (9) 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 statewide credits for contributions to innovation centers from \$9 million to \$5 million annually;

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DESCRIPTION (continued)

(10) Allows any unused credits for these tax credit programs from the previous year to be added to any statewide caps for these programs in future years; and

(11) Adds a "United States census block group" to the definition of a distressed community.

The substitute contains an emergency clause.

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



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Director
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