COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. NO. 0218-01
BILL NO. HB 215
SUBJECT: Economic Development; Taxation and Revenue.
TYPE: Original
DATE: February 12, 2001

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
General Revenue	$0 to ($4,500,000)	$0 to ($4,500,000)	$0 to ($4,500,000)
Total Estimated Net Effect on All State Funds	**$0 to ($4,500,000)**	**$0 to ($4,500,000)**	**$0 to ($4,500,000)**

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
None			
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
Local Government	**$0**	**$0**	**$0**

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

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Economic Development (DED)** assume the proposed legislation makes the following changes which has the resulting fiscal impacts;

135.400 – (3) Redefines ""Community Development Corporation"" and (10) Redefines "Principal Owners" . No Impact.

135.403 - Capital Tax Credit Program. As all of the credits authorized for this program have been allocated (it was established with a cumulative cap of $13 million), this draft establishes credits in the amount of $5,500,000 per year which will result in a negative impact on Total State Revenues (TSR). It also dedicates $2.75 million for use in distressed communities.

135.403 - Community Bank Tax Credit. One million dollars annually is allocated for the Community Bank Tax Credit Program from chapter 32. This change will result in an increased annual cost of $500,000.

135.408 – Ownership of "small business" changes from a 50% level to a maximum of 65% for investors.

135.411 and 423 – The length of time a qualified investment must remain in a small business is changed from 5 years to 3 years. The DED is given authority to revoke and pro-rate collection of credits. Sale of a business does not automatically trigger a revocation if the business continues.

135.535 - Distressed Communities Tax Credit Program. This proposal makes technical changes. This proposal is considered cost neutral. It lowers the percent of employees in a distressed community to 60% from 75%, allows companies to have 150 (200 if in distressed area) employees vs. 100, and allows credits for capital lease or purchase of computer equipment. Unused credits added to Seed Capital Program.

348.300 – 302 Seed Capital Tax Credit Program This change raises the credit percent from 50% to 75% for contributions. Also allows for credits if investment was made in previous 3 years. Tax credits of $4.5 million annually are authorized. The program currently has a cumulative cap of $9 million which has been fully allocated. The revenue impact is projected to result in a cost of $4.5 million per year.

447.708 3 (2) DED may grant demolition tax credit with DNR approval in cases where demolition is part of an approved redevelopment plan. DED does not expect that the availability of demolition credits will have an impact on TSR as this is a discretionary program.

ASSUMPTION (continued)

620.1400 - 1460 Individual Training Account (ITA) Program is repealed, resulting in a $6 million savings per year.

The DED assumes that no additional personnel or equipment are needed at present, and that the proposed legislation has an emergency clause and will go into effect upon passage.

Officials from the **Department of Social Services**, and the **Department of Economic Development - Divisions of Workforce Development** and **Missouri Housing Development Commission** each assume this proposal will not fiscally impact their respective agencies.

Officials from the **Department of Revenue (DOR)** assume this proposal reallocates tax credits and amends various other provisions pertaining to distressed communities. It also repeals the Missouri Individual Training Account Program. The DOR does not anticipate a significant increase in the number of new credits filed. Therefore, the DOR will not request additional FTE at this time. However, if the DOR is incorrect in this assumption, they will need one Temporary Tax Season Employee for every 150,000 additional credits, one Tax Processing Tech I for every 10,000 additional errors generated and one Tax Processing Tech I for every 3,000 additional pieces of correspondence received regarding this credit. Any FTE needed will be requested during the normal budget process.

Officials from the **Department of Natural Resources (DNR)** assumes the proposed legislation would allow for demolition tax credits for up to 100% of the costs of demolition that are not part of the voluntary remediation activities. The proposed legislation requires their department to approve any tax credits authorized by this provision.

Before DNR approves the demolition tax credit, the participant will have to demonstrate that hazardous substances are not contained within or beneath the structure. This demonstration could be made in the documents DNR reviews during their preliminary review, if the documents are comprehensive enough. However, if the initially reviewed documents are not comprehensive and leave some doubt as to whether hazardous substances are within or beneath the structure, then DNR would ask that additional investigations be conducted.

DNR estimates 25 to 30 sites per year. DNR also estimates the review time to approve the tax credit, as illustrated above, is apt to vary depending on the adequacy of the data submitted. If only a preliminary review is necessary, the review time would be approximately 6 hours. If review beyond the preliminary review is needed, the review time could increase to approximately 16 hours. DNR does not anticipate being significantly impacted by these provisions. However, if the number of sites exceeds expectations, the DNR need to request additional resources.

ASSUMPTION (continued)

The DNR has the authority to cost recover any cost associated with reviewing the demolition tax credit. The amount of increased revenues depends on the number of demolition tax credits the DNR reviews and the amount of time to review each. Since DNR does not know the number of applications that would be submitted or the amount of time it would take to review, the amount of increased revenues would be unknown. Currently these revenues are excluded from the Hancock limit since they are reimbursement of charges incurred by the state, there would therefore be no impact to total state revenue numbers.

FISCAL IMPACT - State Government	FY 2002 (10 Mo.)	FY 2003	FY 2004
GENERAL REVENUE			
Costs - Capital Tax Credit	$0 to ($5,500,000)	$0 to ($5,500,000)	$0 to ($5,500,000)
Costs - Community Bank Tax Credit	$0 to ($500,000)	$0 to ($500,000)	$0 to ($500,000)
Costs - Seed Capital Tax Credit	$0 to ($4,500,000)	$0 to ($4,500,000)	$0 to ($4,500,000)
Savings - Individual Training Acct. Program	$0 to $6,000,000	$0 to $6,000,000	$0 to $6,000,000
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**$0 to ($4,500,000)**	**$0 to ($4,500,000)**	**$0 to ($4,500,000)**

FISCAL IMPACT - Local Government	FY 2002 (10 Mo.)	FY 2003	FY 2004
	$0	$0	$0

FISCAL IMPACT - Small Business

The proposal could have a direct fiscal impact on small businesses within distressed communities and small businesses that qualify for a tax credit.

DESCRIPTION

This proposed legislation makes various changes to economic development programs relating to distressed communities and small business investment tax credits. The proposal:

(1) Changes the definition of a community development corporation to stress development of projects that benefit low-income individuals and communities;

(2) Lowers the investment requirement of principal owners of Missouri small businesses eligible for investment from 50% of the business to 35% of the business;

(3) Eliminates the designation of a "target area" for purposes of identifying areas of poverty by the Department of Social Services;

(4) Changes the statewide limit on all tax credits for investments in a small business from an aggregate cap of $13 million to an annual allocation of $5.5 million and changes the minimum amount within distressed communities from a aggregate total of $4 million to an annual total of $2.75 million;

(5) Increases from $500,000 to $1 million the tax credits available annually from the Neighborhood Assistance Program for investment in community banks and community development corporations;

(6) Increases the maximum percentage of investment ownership allowed in a small business to qualify for a tax credit from 50% to 65%;

(7) Reduces the time period requirement for investment in a small business from 5 years to 3 years (unless in a distressed community) 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;

(8) Eliminates a duplicate Section RSMo 135.535;

(9) Reduces the percentage of employees required to be located at a business contained within distressed communities 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;

(10) 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

<u>DESCRIPTION</u> (continued)

$75,000 to $150,000;

(11) 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;

(12) 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 changes the maximum statewide credits for contributions to innovation centers from an aggregate total of $9 million to an annual total of $4.5 million;

(13) 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;

(14) Requires the Department of Economic Development to pursue a revocation of the tax credits only from the original applicant for the tax credit;

(15) Allows a demolition tax credit for up to 100% of the cost if the demolition is part of a redevelopment plan approved by the Director of the Department of Economic Development and by the local government with jurisdiction in the area in which the project is located and with the approval of the Department of Natural Resources; and

(16) Repeals the Missouri Individual Training Account Program Act.

The bill 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 Economic Development - Missouri Housing Development Commission

Department of Economic Development - Division of Workforce Development
Department of Revenue
Department of Natural Resources
Department of Social Services

Jeanne Jarrett, CPA
Director
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