

HB 569 -- Economic Incentive Reform

Co-Sponsors: Merideth, Cooper (120)

This bill eliminates several economic programs and makes changes to several others. Specifically, the bill:

- (1) Creates a new tax credit program called the Sustainable Neighborhoods and Communities Tax Credit Act. The act will expire on January 1, 2006;
- (2) Creates a new tax credit program called the Competitive Communities Tax Credit Act;
- (3) Eliminates tax credits for homeless assistance projects for low-income Missourians, effective January 1, 2006;
- (4) Adds an expiration date to the Neighborhood Assistance, the Youth Opportunities and Violence Prevention, and the Development Tax Credit programs. No projects can be approved for these tax credits after August 28, 2003, and no tax credits can be issued for these programs after January 1, 2006;
- (5) Eliminates tax credits for investing in a distressed community or relocating a business to a distressed community, effective January 1, 2004;
- (6) Eliminates tax credits for investing in the transportation development of a distressed community, effective January 1, 2004;
- (7) Eliminates tax credits for film production companies;
- (8) Eliminates the Missouri Individual Training Account Program; and
- (9) Eliminates the Mature Worker Child Care Program.

TAX CREDITS FOR NEIGHBORHOOD ASSISTANCE, AFFORDABLE HOUSING ASSISTANCE, AND CONTRIBUTIONS TO CERTAIN NEIGHBORHOOD ORGANIZATIONS

Effective January 1, 2006, the bill:

- (1) Eliminates the neighborhood assistance tax credits;
- (2) Authorizes the Missouri Housing Development Commission instead of the Department of Revenue to grant affordable housing tax credits;
- (3) Allows affordable housing tax credits and tax credits for

businesses that make a contribution to certain neighborhood organizations to be transferred or sold; and

(4) Changes the name of the Neighborhood Assistance Act to the Affordable Housing Act.

BUSINESS-USE INCENTIVES FOR LARGE-SCALE DEVELOPMENT

The bill:

(1) Removes the \$75 million limit on the total amount of outstanding revenue bonds the Missouri Development Finance Board can sell;

(2) Limits the amount of authorized tax credits for large-scale development to \$11 million annually;

(3) Reduces the minimum amount of money an eligible industry must invest in most economic development projects from \$15 million to \$7 million. For office industry projects, the minimum investment remains at \$10 million;

(4) Reduces the minimum number of new jobs an eligible industry must create with most economic development projects from 100 to 50. For office industry projects, the minimum number of jobs remains at 500. For office industry projects in distressed communities, the minimum number of new jobs remains at 200; and

(5) Removes health and professional services from the exclusion clause in the definition of "eligible industry."

ENTERPRISE ZONES

The bill:

(1) Allows only approved taxpayers to receive the tax credits, tax exemptions, and other economic incentives related to enterprise zones, rather than allowing any taxpayer to receive them as allowed by current law;

(2) Limits the amount of tax credits authorized for taxpayers who begin operations in an enterprise zone on or after August 28, 2003, to \$50 million annually;

(3) Requires a taxpayer who begins operations in an enterprise zone between January 1, 1999, and August 28, 2003, to have an approved letter of intent to be eligible for the economic incentives related to enterprise zones;

(4) Requires taxpayers to file the initial application for tax

credits in the tax period immediately following the tax period in which commercial operations begin at the new business; and

(5) Expands the list of revenue producing enterprises to include local exchange telecommunications services, certain photo finishing activities, targeted industries, unspecified industries deemed beneficial to the economy that are considering a new or expanded business facility in an enterprise zone, and enterprises identified by a Standard Industry Classification (SIC) number that is the same as a corresponding number in subsequent federal industry classification systems.

SUSTAINABLE NEIGHBORHOODS AND COMMUNITIES TAX CREDIT ACT

The bill:

(1) Creates a new tax credit program called the Sustainable Neighborhoods and Communities Tax Credit Act, which will expire on January 1, 2006;

(2) Limits the amount of these tax credits authorized annually to \$15 million; and

(3) Allows a tax credit for several different types of projects that can be undertaken by a community-based organization or business. Projects must be approved by the Director of the Department of Economic Development. The amount of the tax credit will be 50% of expenses associated with eligible projects. A tax credit equal to 70% of expenses associated with eligible projects can be awarded if the town in which the project occurs has fewer than 15,000 residents and is located in a rural county. If a town with fewer than 15,000 residents is located in a county that is part of a metropolitan statistical area, but the county has only one town with more than 15,000 residents and a substantial number of residents in the county derive their income from agriculture, then a 70% tax credit may also be awarded. The exact amount of the tax credit will be determined by the director.

COMPETITIVE COMMUNITIES TAX CREDIT ACT

The bill:

(1) Creates a new tax credit program called the Competitive Communities Tax Credit Act;

(2) Limits the amount of these tax credits authorized to \$5 million annually;

(3) Requires the Department of Economic Development to adopt a

multi-year plan determining program priorities in which projects will be eligible to receive these tax credits. The bill explains the criteria which should be used when making determinations of eligibility;

(4) Allows businesses seeking the department's approval for a project to submit an application;

(5) Requires the director to approve or disapprove a project and establish the amount of the tax credit to be granted; and

(6) Allows these tax credits to be transferred or sold.

HISTORIC STRUCTURES REHABILITATION TAX CREDIT

The bill:

(1) Requires the individual or entity wishing to receive the tax credit to file a pre-application with the department for preliminary approval;

(2) Requires a project to be in service no later than three years after the date of preliminary approval; and

(3) Requires that an application for the issuance of tax credits be received by the department no later than the end of the tax year following the tax year in which the project went into service. Applications received after this date will not be allowed a tax credit.

MISSOURI TECHNOLOGY CORPORATION

The bill:

(1) Requires that certain documents submitted to the Missouri Technology Corporation be deemed closed records;

(2) Expands the corporation's board from 15 members to 16 and requires that the Commissioner of Higher Education be a member; and

(3) More fully explains the powers of the corporation.

TAX CREDITS FOR QUALIFIED RESEARCH EXPENSES

Effective January 1, 2004, the bill:

(1) Allows the director to authorize a tax credit up to 6.5% of the qualified research expenses that are greater than the average amount of qualified research expenses for the previous three tax

years; and

(2) Prohibits the transfer or sale of these tax credits.

INDUSTRIAL DEVELOPMENT PROJECTS

Current law requires municipalities to file an annual report with the Department of Revenue regarding revenue bonds and general obligation bonds issued in the previous year. In addition to the information the annual report must currently contain, the bill requires municipalities to include the amount of any state sales taxes that were not paid on the project because the buyer was tax-exempt. This will become effective on January 1, 2004.

TAX CREDITS FOR NEW OR EXPANDED BUSINESS FACILITIES

The bill states that facilities which begin operating on or after August 28, 2003, will not receive tax credits for new or expanding business facilities.

TAX CREDITS FOR CHARCOAL PRODUCERS

The bill requires charcoal producers who elect to assign their tax credits to a third party to file all appropriate forms with the Department of Natural Resources rather than the Department of Economic Development, as currently required.

TAX CREDITS FOR MISSOURI LOW-INCOME HOUSING

The bill allows taxpayers to receive a Missouri low-income housing tax credit only if they have received a federal tax credit, rather than requiring that taxpayers receive the tax credit regardless of whether or not they have received the federal tax credit as is currently allowed. These tax credits can be transferred or sold. This will become effective on January 1, 2004.

OTHER PROVISIONS

Current law requires that for any contract or agreement between the department and another party that provides grants, loans, or other assistance to which a monetary value can be assigned, the department must specify that the recipient will use the grant, loan, or other assistance solely as required by the program through which the assistance was provided and that misappropriated funds be repaid in full to the department. The bill applies the same conditions to tax credits.

In addition, the bill requires the department for each grant, loan, tax credit, or other financial incentive to:

- (1) Describe the economic incentive, including its amount and type;
- (2) State why the economic incentive is needed;
- (3) State the public purpose for the incentive;
- (4) State the goals for the incentive and the time periods by which these goals must be met;
- (5) Describe the financial obligations of the party if the requirements of the contract or agreement are not met;
- (6) State the name and address of the parent corporation of the recipient, if any; and
- (7) State all other financial assistance known by the department that was received by the recipient for the same project. All contracts and agreements are governed by the applicable provisions of contract law.

The bill also requires the department to submit an annual report to the Governor, Speaker of the House of Representatives, and the President Pro Tem of the Senate regarding all economic incentives administered in the previous calendar year. The bill specifies the requirements of the report.

These other provisions will become effective on January 1, 2004.