COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4015-02
Bill No.: HCS for HB 1182
Subject: Insurance Dept.; Taxation and Revenue - General
Type: Original
Date: February 2, 2004

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Total Estimated Net Effect on General Revenue Fund	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Total Estimated Net Effect on All State Funds	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of State Treasurer, Department of Economic Development** and **Department of Agriculture** assume the proposal will have no fiscal impact on their organizations.

Officials from the **Department of Revenue (DOR)** provide the following assumptions related to the administrative impact of the proposal on their organization:

Corporate Tax -

Section 348.430 will allow the Agricultural Products Utilization Contributor tax credit to be used to offset quarterly estimated tax payments. DOR already allows this procedure; therefore, there is no fiscal impact. The section was also changed to allow the credit to be claimed in the initial year of contribution or in a carry-back year. The credit will no longer have to be utilized first in the year of contribution. This will be a change to DOR procedures. Changes to forms and programming will be needed.

Section 348.432 will allow the New Generation Cooperative Incentive tax credit to be used to offset quarterly estimated tax payments. DOR already allows this procedure; therefore, there is no fiscal impact. The section was also changed to allow the credit to be claimed in the initial

ASSUMPTION (continued)

year of contribution or in a carry-back year. The credit will no longer have to be utilized first in the year of contribution. This will be a change to DOR procedures. Changes to forms and programming will be needed.

It is estimated that 173 hours of programming ($5,771) will be needed to change the computer systems to handle the implementation of this proposal.

Insurance Tax -

Section 148.330.4 adds Agricultural Product Utilization Credit and New Generation Cooperative Credit to the list of Insurance Tax credits that will not affect the distribution amounts to the schools. In addition, now the county treasurers are also to be held harmless.

This will require programming to the Insurance Tax system both by DOR and the Division of Insurance. Forms will also need to be revised. Programming should be minimal or approximately 87 hours at a cost of $2,902.

Therefore, the DOR estimates the total fiscal impact of this proposal to be one-time programming and form changes costs of $8,673.

Oversight assumes the DOR could absorb these minimal costs within current funding levels.

Officials from the **Department of Insurance (INS)** state currently the tax credits are allowed to be taken annually and are applied against the County Stock Fund. No funds collected in the county stock fund are deposited into General Revenue (GR). All funds are distributed to the county treasurer and school district in which the principal office of the company is located. This change shifts the liability of the tax credits to GR, which previously was not impacted by the redeemed credits against County Stock Funds.

In 2002, there were no agricultural, new generation cooperative or new generation processing entity tax credits taken against the County Stock Fund. In 2001, there were $303,633 in agricultural utilization credits taken by county stock companies. Legislation allows these tax credits to now immediately apply to three prior tax years. The INS anticipates, at a minimum, an amount equal to that used in 2001 would be used against prior tax years. This would create a tax liability to General Revenue of approximately $300,000, which had not been calculated before. The INS also anticipates that future tax burdens would be increased to General Revenue. It is anticipated that more entities would purchase and use these tax credits if allowed to take them

ASSUMPTION (continued)

against quarterly taxes. The fiscal impact is estimated at a range of $300,000 loss of revenue to GR to an unknown loss of revenue to GR. The State would also lose interest earned on premium tax collected through the year if credits are allowed on a quarterly basis.

The INS would require contract computer programming of $54,400 (640 hours @ $84/hour) to make modifications to the premium tax system so credits could be processed quarterly.

Oversight assumes this proposal has no net impact on the state since the proposal does not increase or reduce the amount of tax credits available. Also, **Oversight** assumes that a small number of insurance companies would claim the tax credits quarterly. INS could absorb costs related to this proposal by maintaining a manual or personal computer based system for the insurance companies that take the tax credits rather than reprogramming their system. Should more than a few insurance companies take the quarterly tax credit or should other existing premium tax credits be allowed to be taken quarterly, the INS could request additional funding through the appropriation process.

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** did not respond to our request for a statement of fiscal impact. However, in response to an earlier version of this proposal the BAP stated the proposal would allow tax credits for new generation cooperatives and new generation processing entities to be taken on a quarterly basis, as opposed to only on an annual basis. Further, the proposal establishes a three-year carry-back for these tax credits. This proposal clarifies that the premium tax credits permitted in Sections 348.430 and 348.432, RSMo, shall only be subtracted against the general revenue fund.

This proposal would facilitate increased tax credit usage. BAP has no basis for estimating the amount of this increase and defers to the Department of Agriculture.

FISCAL IMPACT - State Government	FY 2005 (10 Mo.)	FY 2006	FY 2007
	$0	**$0**	**$0**

FISCAL IMPACT - Local Government	FY 2005 (10 Mo.)	FY 2006	FY 2007
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

DESCRIPTION

This proposal allows the following tax credits to be taken against estimated quarterly taxes paid: (1) Credits for investments in eligible new generation cooperatives or eligible new generation processing entities; and (2) Credits received for contributions to the Agricultural Product Utilization Grant Fund.

The proposal adds eligible new generation cooperatives, eligible new generation processing entities, and agricultural product utilization contributor tax credits to the restriction that the tax credits taken against insurance premiums will not reduce moneys transferred to the county foreign insurance fund.

The proposal decreases the required number of employees in an employee-qualified capital project from 100 to 60 for investors to receive a New Generation Cooperative Incentive Tax Credit.

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 Agriculture
Department of Economic Development
Department of Revenue
Department of Insurance
Office of State Treasurer

NOT RESPONDING: Office of Administration - Division of Budget and Planning

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HWC:LR:OD (12/02)

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