COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4030-01
Bill No.: HB 1597
Subject: Business and Commerce; Counties; Revenue Department; Taxation and Revenue.
Type: Original
Date: April 6, 2004

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
General Revenue	($4,694,716 to Unknown)	($4,641,368 to Unknown)	($4,644,983 to Unknown)
Total Estimated Net Effect on General Revenue Fund	**($4,694,716 to UNKNOWN)**	**($4,641,368 to UNKNOWN)**	**($4,644,983 to UNKNOWN)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Total Estimated Net Effect on Other 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 Administration - Budget and Planning** state the proposal should not result in any costs or savings to their agency. The proposal could, however, decrease general revenue and total state revenue.

Officials from the **Department of Revenue (DOR)** state the proposal would have the following administrative impact:

Business Tax - This legislation sets up "rural empowerment zones" and would allow income earned in the zone to be exempt from corporate income tax. This should work similar to the enterprise zone credit modification on the corporate side. A line would be added to the corporate income tax return. COINS would need to be modified. It is estimated that 692 hours of programming would be needed for a cost of $23,085.

Personal Tax - The credit will be added to the MO-TC for processing on the individual income tax return. Personal Tax will need 1 Tax Processing Tech for every 3,000 claims to handle the verification, key entry and tracking of the credit. MINITS will need to be modified to process this information. It is estimated that 1,384 hours of programming and testing will be needed to update all systems at a cost of $47,170.

ASSUMPTION (continued)

DOR assumes a cost of $103,943 in FY 2005, $34,516 in FY 2006 and $35,390 in FY 2007.

Oversight assumes the programming changes will need to be made by DOR in FY 2005, however, the additional FTE would not be necessary until January, 2005, or 6 months of FY 2005. Oversight also assumes DOR would not incur additional office space expense for the FTE.

Officials from the **Department of Economic Development (DED)** state the bill would allow for the creation of a new "Rural Empowerment Zone" program that appears to be modeled after the state Enterprise Zone Program. It would exempt all taxable income earned at an eligible facility located in an approved (by DED) Rural Empowerment Zone. The Program would sunset in ten years (August 28, 2014). There is no limitation on the number of zones that could be designated. DED assumes it would be responsible for the establishment/application phase of the program and certifying to the Department of Revenue that a company is to receive the tax exemption.

DED assumes the proposal would reduce total state revenues by an unknown amount, but the program is similar to enterprise zones. Whereas enterprise zones provide tax credits based on jobs and investment, this bill appears to provide for a complete exemption from taxes if the business creates 10 jobs. To provide an estimate of cost, an assumption could be made that a rural empowerment zone would be similar in cost to a satellite enterprise zone of $60,000 to unknown. Using this as a cost and estimating at least 75 zones, the cost would be $4.5 million to unknown.

To administer the program, DED assumes the need for two Economic Development Incentive Specialist II's (each at $38,088 per year) plus equipment and additional expenses. DED assumes the cost of the additional FTEs would be roughly $145,000 per year.

Oversight has reduced the salary of the two FTE to reflect actual starting salary for the position described. Oversight also assumes DED would not incur additional office space expense for the two FTE. Oversight will utilize DED’s estimate for the loss to General Revenue from the exemption of income taxes, although the actual reduction could be substantially different.

Officials from **Hickory County** anticipate no savings or revenues from the proposal. Hickory County officials expect costs between $500 and $1,500 for the implementation and continued administration of the zones. Officials also expect a loss of tax revenue based on forgiveness of taxes to be paid by businesses of between $1,000 and $5,000 annually, starting in FY 2006.

ASSUMPTION (continued)

Officials from the counties of **Polk**, **Sullivan**, **Texas** and **Ripley** did not respond to our request for fiscal impact.

Oversight assumes the proposal is permissive for local political subdivisions regarding establishing the Rural Empowerment Zones, and therefore, have not reflected a cost to them.

This proposal may decrease Total State Revenues.

FISCAL IMPACT - State Government	FY 2005 (10 Mo.)	FY 2006	FY 2007
GENERAL REVENUE			
Costs - Department of Revenue (DOR)			
Personal Service (1 FTE)	($11,168)	($22,895)	($23,468)
Fringe Benefits	($4,624)	($9,479)	($9,716)
Expense and Equipment	($6,785)	($309)	($318)
Programming	($69,255)	$0	$0
Total Costs - DOR	($91,832)	($32,683)	($33,502)
Costs - Department of Economic Development (DED)			
Personal Service (2 FTE)	($53,608)	($65,937)	($67,586)
Fringe Benefits	($22,194)	($27,298)	($27,981)
Expense and Equipment	($27,082)	($15,450)	($15,914)
Total Costs - DED	($102,884)	($108,685)	($111,481)
Loss - exempted income tax from new business facilities and revenue-producing enterprises.	($4,500,000 to (Unknown)	($4,500,000 to (Unknown)	($4,500,000 to (Unknown)
ESTIMATED NET EFFECT TO GENERAL REVENUE	**($4,694,716 to Unknown)**	**($4,641,368 to Unknown)**	**($4,644,983 to Unknown)**

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

FISCAL IMPACT - Small Business

Small businesses within a rural empowerment zone created as a result of this proposal could experience an abatement of their state income taxes.

DESCRIPTION

This proposal allows the governing body of any county to submit an application to the Department of Economic Development to designate areas within the county as rural empowerment zones. The department will review the application to ensure that the area meets all of the following criteria:

(1) The area is one of pervasive poverty, unemployment, and general distress;

(2) At least 65% of the population has earned income below 80% of the median income of all residents within the state;

(3) The population of the area is between 400 and 3,500 at the time of the designation;

(4) The level of unemployment within the area exceeds 150% of the average rate of unemployment for the state over the previous twelve months or the percentage of area residents employed on a full-time basis is less than 50% of the statewide percentage;

(5) The area is more than 10 miles from any existing rural empowerment zone;

(6) The area is in a third or fourth classification county; and

(7) The area is not in an existing enterprise zone.

New businesses and revenue-producing enterprises located in the zone will be exempt from paying all Missouri income taxes attributable to the business until August 28, 2014, provided the business creates a certain number of new full-time jobs within one year from the date on which the tax exemption begins. New businesses must create at least 10 new jobs; revenue-producing

DESCRIPTION (continued)

enterprises that employ fewer than 20 people must create at least five new jobs; and revenue-producing enterprises that employ 20 or more people must create a number of new jobs equal to 25% of the number of full-time employees employed by the revenue-producing enterprise.

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
Budget and Planning
Hickory County

NOT RESPONDING: Polk County, Sullivan County, Texas County, Ripley County

Mickey Wilson

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Director
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