COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4248-01
Bill No.: HB 1370
Subject: Economic Development Department; Revenue Department; Taxation and Revenue.
Type: Original
Date: February 24, 2004

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
General Revenue	($234,673)	($102,098)	($104,694)
Total Estimated Net Effect on General Revenue Fund	**($234,673)**	**($102,098)**	**($104,694)**

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 8 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 **Department of Health and Senior Services, Coordinating Board of Higher Education** and the **Office of the State Auditor** each assume the proposal would not fiscally impact their respective agencies

Officials from the **Department of Insurance (INS)** state this legislation may require their agency to collect additional information from insurers taking tax credits. INS would be required to compile and report annually on tax credits administered by their agency. INS assumes additional workload could be accomplished with existing staff for reporting on their tax credits, but if additional workload is required to assist other agencies (DED, DOR, AG) who administer tax credits which are used by insurance companies, then additional resources may need to be requested.

Officials from the **Department of Agriculture** state the additional costs of reporting and monitoring will be assessed against application fees collected.

Officials from the **Department of Social Services** assume they will incur additional expenses under $100,000 as a result of the additional paperwork involved with the new reporting requirements for the Maternity tax credit program.

ASSUMPTION (continued)

Oversight assumes the Department of Social Services will, like various other tax credit administering state agencies, be able to absorb the additional paperwork created by this proposal with existing resources.

Officials from the **Department of Public Safety** assumes their agency must determine through DOR and INS if a tax credit applicant owes the state taxes and if so, shall offset the amount owed against the credit. If any credit remains, that amount may be issued to the applicant.

DPS assumes the need for a Clerk-Typist III FTE (at $23,784 per year) to assist in the verification of tax credit applications with DOR as well as prepare correspondence to individuals that do not qualify for the tax credits. DPS assumes the total cost of the requested FTE to be roughly $37,000 per year.

Oversight assumes the Department of Revenue and Department of Insurance will develop a process with the various tax credit administering agencies to verify whether potential tax credit recipients have taxes that are past due, similar to the provisions of HB 600 from 2003. Therefore, Oversight assumes DPS will not incur additional expense as a result of the proposal.

Officials from the **Department of Natural Resources (DNR)** state the Historic Preservation Tax Credit program is administered by DED with DNR/SHPO providing technical review of historic eligibility and review of proposed rehabilitation work to ensure compliance with the Secretary of the Interior's Standards. The added accountability requirements will be the responsibility of DED and should have no direct fiscal impact on DNR's review role in administration of the Historic Preservation Tax credits.

Officials from the **Office of Secretary of State (SOS)** assume there would be costs due to additional publishing duties related to various department's authority to promulgate rules, regulations, and forms. SOS estimates the divisions could require approximately 24 new pages of regulations in the Code of State Regulations at a cost of $27.00 per page, and 36 new pages in the Missouri Register at a cost of $23.00 per page. Costs due to this proposal are estimated to be $1,476, however, the actual fiscal impact would be dependent upon the actual rule-making authority and may be more or less. Financial impact in subsequent fiscal years would depend entirely on the number, length, and frequency of the rules filed, amended, rescinded, or withdrawn. SOS does not anticipate the need for additional staff as a result of this proposal, however, the enactment of more than one similar proposal may, in the aggregate, necessitate additional staff.

ASSUMPTION (continued)

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process. Any decisions to raise fees to defray costs would likely be made in subsequent fiscal years.

Officials from the **Department of Revenue (DOR)** have revised their response to the Tax Credit Accountability Act to assume the following impact;

Applicants will be required to get a tax clearance from DOR and Insurance before a tax credit will be authorized. This will greatly increase the number of tax clearance requests. DOR will have to process a tax clearance on each tax credit applicant. This will be a manual process and will take 1 Tax Processing Tech to handle the process.

Reporting requirements are due June 30th of each year and penalties apply if the information is not submitted. Once the taxpayer has failed to report for six months, DOR is to add any penalty to the applicant's income tax liability. This will require programming changes in the MINITS and COINS systems. It is estimated that it will take 6 programmers 2 months or 2,076 hours of programming at a cost of $69,255 for the MINITS system and it will take 6 programmers 2 months or 2,076 hours of programming at a cost of $69,255 to modify the COINS system.

DOR states that form changes will be required, but will be absorbed through existing resources.

Customer Assistance anticipates calls and walk-ins to the Tax Assistance Centers. DOR assumes the number of calls or walk-ins will not be significant. However, if DOR is incorrect in this assumption, it will need one Tax Collection Tech, plus supportive equip, for every 15,000 calls a year to 751-7200 delinquent line due to penalties assessed on tax credits, and one Tax Processing Tech for 5,200 additional calls to the offices and one Tax Processing Tech for every 2,150 additional walk-ins. Any FTE's will be requested through the normal budget process.

DOR assumes that they will not be the sole tracker of the tax credits, except for the credits administered by DOR. DOR's only role in the tax credit tracking systems will be to provide redemption amounts for tax credits. If DOR is incorrect in this assumption, then the department may incur additional impact.

Officials from the **Department of Economic Development (DED)** did not respond to our request for fiscal impact. However, in response to a similar proposal from this year, DED stated they would ensure received reports from taxpayers comply with the reporting requirements as

ASSUMPTION (continued)

established in 135.805 RSMo. This would result in the receipt of 1,000 - 4,650 reports and would result in some delinquencies. DED would have one person responsible for insuring receipt of reports and coordinating the collections for late or non-filings. DED would absorb the costs of revision of tax credit applications to accommodate new information required for any application. DED assumed the need for some funding to cover mailing costs of sending delinquency notices. The DED Client Management System (CMS) would have to be modified to include the additional information from applications. The CMS would also need to be programmed to track reporting and identify non-filers as well as issue required notifications to non-filers. DED would be able to accomplish this with the addition of an Executive II FTE (at $36,612 annually).

DED assumed total cost from complying with this proposal of roughly $80,000 per year.

Oversight assumes DED would not need additional floor space for the requested FTE.

Oversight also assumes the provisions in the proposal regarding verifying with the Department of Revenue and the Department of Insurance for outstanding taxes prior to issuing tax credits, may result in a savings to the state. If an applicant has a past due balance for sales taxes, income taxes or insurance premium taxes, the state could potentially save money by verifying the balance due and netting it to the tax credit issuance.

FISCAL IMPACT - State Government	FY 2005 (10 Mo.)	FY 2006	FY 2007
GENERAL REVENUE			
Costs - Department of Revenue (DOR)			
Personal Service (1 FTE)	($18,614)	($22,895)	($23,468)
Fringe Benefits	($7,706)	($9,479)	($9,716)
Expense and Equipment	($7,082)	($531)	($547)
Programming expenses	($138,510)	$0	$0
Total Costs - DOR	($171,912)	($32,905)	($33,731)

FISCAL IMPACT - State Government (continued)	FY 2005 (10 Mo.)	FY 2006	FY 2007
Costs - Department of Economic Development (DED)			
Personal Service (1 FTE)	($31,273)	($38,465)	($39,427)
Fringe Benefits	($12,947)	($15,925)	($16,323)
Expense and Equipment	($13,558)	($8,674)	($8,931)
Programming expenses	($4,983)	($6,129)	($6,282)
Total Costs - DED	($62,761)	($69,193)	($70,963)
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	**($234,673)**	**($102,098)**	**($104,694)**

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

FISCAL IMPACT - Small Business

Small businesses that apply for and receive Missouri tax credits will need to provide additional information at the application stage as well as annual reporting after the tax credit has been issued.

DESCRIPTION

This proposal makes changes to the laws regarding tax credits. The proposal:

(1) Establishes a system of classifications for tax credits and minimum requirements for each classification. The administering state agencies may promulgate rules to include additional requirements or to explain the listed requirements;

(2) Implements reporting requirements to assist future legislatures in assessing the value of tax credit programs. Reporting occurs over a period of three years for most credits. Annual reports will be due June 30 each year. Reporting will be the duty of the recipient of the credit, except in the case of certain contribution-based credits. The proposal requires that a taxpayer receiving a credit be made aware of the future reporting requirements prior to issuance;

DESCRIPTION (continued)

(3) Implements a compliance system for reporting. Failure to meet the annual reporting requirements will result in graduated penalties. A six-month grace period and at least one notice by certified mail to the last known address of the taxpayer is included. If fraud is found by a court of competent jurisdiction, a 100% penalty will be incurred. Penalties will be assessed against a noncompliant taxpayer at the end of the taxpayer's taxable year and due on the last date of filing of the taxpayer's return. Collection procedures follow current procedures for income taxes;

(4) Requires that prior to approval of any tax credit application, an administering agency will verify through the Department of Revenue that the tax credit applicant does not owe any delinquent taxes, including penalties and interest. A tax delinquency will not affect the approval of the application for the tax credits, except that the amount of credits issued will be reduced by the applicant's tax delinquency;

(5) Requires two months' notice to the Department of Revenue whenever more than $1 million of income tax credits are going to be redeemed. The notice must come prior to the assessment of tax liability whenever a large sum of credits are going to be claimed against a taxpayer's income tax liability. The bill provides that an early filing of tax liability will count as notice so long as it is at least two months prior to the assessment date;

(6) Provides that the minimum application requirements are made open records once the credits have been issued. When state approval of a credit application occurs prior to actual issuance, the application data will become an open record at the time the application is approved. Information relating to the application for a special needs adoption tax credit are excluded from the open record requirement;

(7) Expands the existing audit statutes for state-sponsored cost benefit analysis to require periodic examination of all credits. Currently, only credits administered by the Department of Economic Development are subject to analysis. All audits will be provided to the Governor, the legislature, and the Joint Committee on Tax Policy; and

(8) Charges the Joint Committee on Tax Policy with an automatic review of the State Auditor's

tax credit program audits. After this period of review, the committee will be given the option to make an official recommendation to the General Assembly on its merit and to suggest future treatment of each 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 Economic Development
Office of the State Auditor
Department of Revenue
Department of Insurance
Coordinating Board of Higher Education
Department of Agriculture
Department of Health and Senior Services
Department of Public Safety
Department of Natural Resources
Department of Social Services
Office of the Secretary of State

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