

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5251-01
Bill No.: HB 2016
Subject: Agriculture and Animals; Revenue Department; Taxation and Revenue
Type: Original
Date: April 3, 2006

FISCAL SUMMARY

| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | | | |
|---|-------------------|--|--|
| FUND AFFECTED | FY 2007 | FY 2008 | FY 2009 |
| General Revenue | (\$98,900) | (\$110,528 to \$10,110,528) | (\$113,296 to \$10,113,296) |
| | | | |
| Total Estimated Net Effect on General Revenue Fund | (\$98,900) | (\$110,528 to \$10,110,528) | (\$113,296 to \$10,113,296) |

| ESTIMATED NET EFFECT ON OTHER STATE FUNDS | | | |
|---|----------------|----------------|----------------|
| FUND AFFECTED | FY 2007 | FY 2008 | FY 2009 |
| | | | |
| | | | |
| Total Estimated Net Effect on <u>Other</u> State Funds | \$0 | \$0 | \$0 |

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 5 pages.

| ESTIMATED NET EFFECT ON FEDERAL FUNDS | | | |
|---|------------|------------|------------|
| FUND AFFECTED | FY 2007 | FY 2008 | FY 2009 |
| | | | |
| | | | |
| Total Estimated Net Effect on <u>All</u> Federal Funds | \$0 | \$0 | \$0 |

| ESTIMATED NET EFFECT ON LOCAL FUNDS | | | |
|-------------------------------------|------------|------------|------------|
| FUND AFFECTED | FY 2007 | FY 2008 | FY 2009 |
| Local Government | \$0 | \$0 | \$0 |

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration - Budget and Planning (BAP)** state the proposal should not result in additional costs or savings to their agency. By its own provisions, the measure should not result in revenue losses to the General Revenue Fund of more than \$10 million annually, and \$30 million in total. Presumably, the Missouri Department of Agriculture would have the beef cattle sale data needed to estimate the measure's likely impact.

Officials from the **Office of Secretary of State (SOS)** state many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the SOS for Administrative Rules is less than \$1,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, the SOS also recognizes that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what the office can sustain with the core budget. Therefore, the SOS reserves the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

ASSUMPTION (continued)

Officials from the **Department of Revenue (DOR)** state the proposal creates a tax credit for the sale of qualifying beef. DOR assumes with the apportioning language, the Corporate/Franchise and Personal Tax sections would each require 1 Tax Processing Technician I for apportioning and tracking purposes. DOR assumes the total cost of the two additional FTE would be roughly \$75,000 annually.

Oversight will assume DOR will not pay for additional floor space in Jefferson City for the two FTE and have reduced their estimate accordingly.

Officials from the **Department of Agriculture (AGR)** state there are some 1,675,000 feeder calves sold each year per the Missouri Agricultural Statistics Service.

AGR reports on 16 of the major markets throughout Missouri. Weights, grades, and prices were reported on 838,024 head sold through these 16 markets in 2005. The beef feeder calves are reported in weight group increments of 50 lbs as follows; 500-550, 550-600, 600-650 and so on through 1,200 lbs. The 838,024 head that were reported fell into the following weight groups as follows:

550-550 = 21.35%, 550-600 = 20.74%, 600-650 = 19.17%, 650-700 = 13.65%, 700-750 = 9.78%, 750-800 = 6.20%, 800-850 = 4.44%, 850-900 = 2.63%, 900-950 = 1.42%, 950-1,000 = .44%, 1,000-1,050 = .15%, 1,050-1,100 = .02%, 1,100-1,150 = 0%, 1,150-1,200 = .002%.

The above percentages were applied to the other 836,976 (1,675,000 - 838,024) cattle. The total weight over 500 lbs (236,613,700 lbs x \$.06/lb = \$14,196,822). Assuming that 80% of Missouri's beef producers would utilize the program would result in credits of \$11.357 million (\$14,196,822 x 80% = \$11,357,458). The amount would account for current production and marketing practices.

Assuming that 20% of Missouri's cow/calf operators retained ownership of their 500 lb calves until they reached 800 lbs and also assuming that 20% of those who background their cattle would retain ownership up to 1,100 lbs, the retained ownership tax credit increase would be \$2,839,364.

Total tax credits would then be \$14,196,822 (\$11,357,458 + \$2,839,364). However the maximum allowable claimed each year is \$10,000,000.

AGR states that based on the large number of beef producers in the state, another employee will be needed to process, monitor and enforce the legislation.

ASSUMPTION (continued)

Oversight will range the fiscal impact of the proposal from \$0 to the annual cap of \$10,000,000. The tax credit is for all tax years beginning on or after January 1, 2007, therefore, Oversight will assume the earliest these tax credits would be utilized is for calendar year 2007 tax returns filed in FY 2008. Oversight will assume AGR will need the additional FTE it requested for 10 months in FY 2007 to set up the program. Oversight will also assume the DOR will not require the additional FTE until January 1, 2007 (or 6 months in FY 2007).

| <u>FISCAL IMPACT - State Government</u> | FY 2007 (10 Mo.) | FY 2008 | FY 2009 |
|---|--------------------------|---|---|
| GENERAL REVENUE FUND | | | |
| <u>Costs - Department of Agriculture</u> | | | |
| Personal Service (1 FTE) | (\$22,150) | (\$27,245) | (\$27,926) |
| Fringe Benefits | (\$9,759) | (\$12,004) | (\$12,304) |
| Personal Service | <u>(\$1,834)</u> | <u>(\$618)</u> | <u>(\$632)</u> |
| <u>Total Costs - AGR</u> | (\$33,743) | (\$39,867) | (\$40,862) |
| <u>Costs - Department of Revenue</u> | | | |
| Personal Service (2 FTE) | (\$23,567) | (\$48,312) | (\$49,520) |
| Fringe Benefits | (\$10,384) | (\$21,286) | (\$21,819) |
| Personal Service | <u>(\$31,206)</u> | <u>(\$1,063)</u> | <u>(\$1,095)</u> |
| <u>Total Costs - DOR</u> | (\$65,157) | (\$70,661) | (\$72,434) |
| <u>Loss - Qualified beef sale tax credits</u> | <u>\$0</u> | \$0 to <u>(\$10,000,000)</u> | \$0 to <u>(\$10,000,000)</u> |
| ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND | <u>(\$98,900)</u> | <u>(\$110,528 to \$10,110,528)</u> | <u>(\$113,296 to \$10,113,296)</u> |

| <u>FISCAL IMPACT - Local Government</u> | FY 2007 (10 Mo.) | FY 2008 | FY 2009 |
|---|---------------------|-------------------|-------------------|
| | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |

FISCAL IMPACT - Small Business

Small businesses that would benefit from the tax credit would be positively impacted by this proposal.

DESCRIPTION

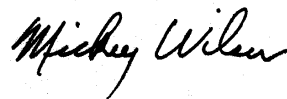
This proposal authorizes the Agricultural and Small Business Development Authority to issue a tax credit certificate in an amount equal to six cents per pound above 500 pounds at the time qualified beef cattle are sold. The beef cattle must be born in Missouri after August 28, 2006, and raised and finished instate to qualify for the tax credit. The authority will require submission of an application for the tax credit including certain information which will be confidential.

The tax credit must be claimed in the year the qualifying sale occurs, but any unused portion may be carried back three taxable years, carried forward five taxable years, assigned, transferred, or sold. The maximum amount of tax credits that may be claimed beginning January 1, 2007, and ending on December 31, 2010, is \$10 million in any tax year but cannot exceed \$30 million in total. If the demand among qualified applicants for tax credits exceeds \$10 million in any year, the tax credits will be prorated among the qualified applicants.

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 Revenue
Office of Administration - Budget and Planning
Office of the Secretary of State



Mickey Wilson, CPA
Director
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