COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1217-06
Bill No.: SCS for HCS for HB 327
Subject: Business and Commerce; Economic Development; Insurance Department; Taxation and Revenue
Type: Original
Date: April 2, 2007

Bill Summary: This proposal modifies provisions of certain Department of Economic Development programs.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
General Revenue	($421,376 to Unknown - could exceed $36,421,376)	($486,659 to Unknown - could exceed $57,486,659)	($501,173 to Unknown - could exceed $72,501,173)
Total Estimated Net Effect on General Revenue Fund*	**($421,376 to Unknown - could exceed $36,421,376)**	**($486,659 to Unknown - could exceed $57,486,659)**	**($501,173 to Unknown - could exceed $72,501,173)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Various State Funds	(Unknown)	(Unknown)	(Unknown)
Total Estimated Net Effect on Other State Funds*	**(Unknown)**	**(Unknown)**	**(Unknown)**

*** The fiscal impact could be divided between the General Revenue Fund and the County Foreign Insurance Fund (which ultimately goes to local school districts) if some of the tax credits are utilized against insurance premium taxes.**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 17 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
General Revenue	9 FTE	9 FTE	9 FTE
Total Estimated Net Effect on FTE	**9 FTE**	**9 FTE**	**9 FTE**

☒ Estimated Total Net Effect on All funds expected to exceed $100,000 savings or (cost).

☐ Estimated Net Effect on General Revenue Fund expected to exceed $100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Local Government*	**(Unknown)**	**(Unknown)**	**(Unknown)**

*** The fiscal impact could be divided between the General Revenue Fund and the County Foreign Insurance Fund (which ultimately goes to local school districts) if some of the tax credits are utilized against insurance premium taxes.**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration - Budget and Planning (BAP)** state the proposal modifies several definitions to include charitable organizations that are exempt from federal income tax in the list of companies and/or individual taxpayers who are eligible for a variety of tax credit programs. This would open up these programs to a new section of eligible participants. This increase would not necessarily increase the cost of the programs, simply the pool from which those programs can award benefits.

The proposal creates a tax credit program that allows credit for individuals who make their homes accessible for disabled persons living with them. The annual cap for the credits is two thousand five hundred dollars. The credits are available only in the event that there are credits remaining under the ten million dollar cap for similar programs. This proposal could therefore lower general and total state revenues by that amount, assuming the unused portion of the other credit has not been included in estimated decreases to general and total state revenues.

The proposal creates the Distressed Areas Land Assemblage Tax Credit program. The program provides for a twenty-five percent tax credit on acquisition costs and fifty percent on interest costs incurred on an eligible parcel of land for a period of five years. The tax credits may be carried forward for three consecutive years or until the credit is fully used, whichever occurs first. The total aggregate amount of tax credits authorized under this program shall not exceed one hundred million dollars and the proposal sets an annual cap of twelve million dollars for the program. This proposal could therefore lower general and state revenues by that amount. This program may stimulate other economic activity, but Budget and Planning does not have data to estimate the induced revenues. The Department of Economic Development may have such an estimate.

The proposal also creates a state program similar to the federal New Markets Tax Credit Program which authorizes tax credits to any investor who makes investments in Low Income Communities. This legislation could have a negative impact on general revenue up to $15 million dollars in any fiscal year. The credit may be taken against any state tax liability - income tax except withholding, corporate franchise tax, financial institution tax, public utility tax, or insurance retaliatory tax. Budget and Planning defers to the departments of Economic Development and Insurance for more specific estimates on the impact of these tax credits.

The proposal expands on the tax credits awarded for investment in film production. Beginning January 1, 2008, tax credits issued under this program shall not exceed ten million five hundred thousand dollars per year. This proposal could therefore lower general and state revenues by that

ASSUMPTION (continued)

amount. This program may stimulate other economic activity, but Budget and Planning does not have data to estimate the induced revenues. The Department of Economic Development may have such an estimate.

The proposal also modifies the enhanced enterprise zone program by increasing the annual cap of tax credits available from seven million dollars to twenty-five million dollars. This proposal could therefore lower general and state revenues by that amount. This program may stimulate other economic activity, but Budget and Planning does not have data to estimate the induced revenues. The Department of Economic Development may have such an estimate.

The proposal authorizes an exemption from state and local sales and use tax for the cost of certain materials used in the manufacturing, processing, compounding, mining, or production of a product. Data from the US Department of Energy, Energy Information Administration (EIA) indicates that in 2005, revenues from sales of electricity to end users in the industrial sector amounted to $766 million. This translates to sales of $720 million, at state and average local taxes of 6.45 percent. The resulting estimated loss of state and local sales taxes in the industrial sector would therefore be $46 million assuming similar electricity usage in 2007.

($) Millions	2005
Industry Sales	$ 720
Sales Tax Rate	6.45%
Industry Revenues	$ 766
State and Local Sales Taxes from Industry electricity sales	$ 46

BAP has no means to determine other loss of revenue from other utilities, chemicals, machinery equipment and materials used in industry (in addition to losses to local transportation districts), but notes that such loss could be substantial.

The proposed legislation also extends the date for the Missouri Community College Job Training program until 2028 and the date for community college districts to sell certificates until 2018.

The proposal also modifies the Missouri quality jobs program by increasing the annual cap of tax credits available from twelve million dollars to thirty million dollars. This proposal could therefore lower general and state revenues by that amount. This program may stimulate other economic activity, but Budget and Planning does not have data to estimate the induced revenues. The Department of Economic Development may have such an estimate.

ASSUMPTION (continued)

The proposal creates a tax credit program for small business retention and flood survivor relief. The limit for tax credits per company, per year is set at two hundred fifty thousand dollars per year but may be increased to five hundred thousand dollars if approved by the quality jobs advisory task force. The aggregate cap for all such tax credits is five hundred thousand dollars per year. This proposal could therefore lower general and state revenues by that amount

Officials from the **Department of Economic Development (DED)** states the following changes are being made by the proposal:

** Where you see these asterisks the following language adds charitable organizations to the definition of the taxpayer or person allowed to receive the tax credit -- "any charitable organization which is exempt from federal income tax and whose Missouri unrelated business taxable income, if any, would be subject to the state income tax invested under chapter 143, RSMo." This language should have no impact.

Section 32.105, Affordable Housing -- allows credits to be sold and transferred. Also adds ** language above.

Section 99.1200, Distressed Areas Land Assemblage Tax Credit -- $100M Cumulative Cap at $12M per year. 1.0 FTE and impact to TSR of $12M per year.

Section 100.286, MDFB -- adds ** language from above

Section 135.460 - Youth Opportunity -- allows credits to be sold or transferred and adds ** language from above.

Section 135.500 -- CAPCO-- adds language which takes $100,000 in tax credits available under the $100 million cap and transfers them to the Disability Access Tax Credit in Section 135.562.

Section 135.550 -- Domestic Violence Shelters Tax Credit (DSS) -- allows credits to be transferred and sold and adds ** language.

Section 135.562 -- Disability Access Tax Credit. Provides tax credit to person that makes their dwelling accessible to individuals with disabilities up to $2,500 per taxpayer. 1.0 FTE to administer.

Section 135.600 -- Maternity Home Tax Credit (DSS)--allows to be transferred and sold and adds ** language.

ASSUMPTION (continued)

Section 135.662 -- Qualified Equity Investment tax credit -- Cap is $15M per year. 1.0 FTE.

Section 135.750 -- Film Production tax credit -- Increase cap by $9M per year. 1.0 FTE.

Section 135.950 -- Enhanced Enterprise Zone -- Increases cap from $7M to $25M.

Section 135.1150 -- Residential Treatment Agency Tax Credit (DSS) -- adds ** language.

Section 144.054 -- Sales tax exemption for utilities used in manufacturing process. DOR only. No impact.

Section 173.196 -- MO Higher Education Scholarship Donation Fund -- allows transfer/sale and adds ** language. No impact.

Section 173.715 -- Provides for vocational school district in SE Missouri. No impact.

Section 178.895 -- Comm. College New Job Training (DWD) No impact to BCS.

Section 208.750 -- Family Development Account -- adds ** language. No impact.

Section 348.300 -- Seed Capital Tax Credit -- adds ** language. Tax Credits are exhausted. No impact.

Section 620.495 -- Small Biz Incubator Tax Credit -- adds ** language. No impact.

Section 620.638 -- New Enterprise Creation Tax Credit (NECA)-- adds ** language. Tax Credits are exhausted. No impact.

Section 620.1039 -- Qualified Research -- adds ** language. Tax Credits are exhausted. No impact.

Section 620.1039 -- MO Quality Jobs -- Increases cap from $12M to $30M. We did not request FTE and showed positive impact. Also adds language about giving preference to companies located in areas classified as disaster areas by federal government and also the flood survivor relief language we've seen before.

DED states an unlimited amount of Missouri Quality Jobs (MQJ) credits and Enhanced Enterprise Zone (EEZ) credits could be issued. Credits issued in year one would not be earned or claimed until the start of the third fiscal year. Projections prepared by the DED Missouri

ASSUMPTION (continued)

Economic Research and Information Center indicate a return on investment (ROI) of by year three of 1.44 to 1for MQJ and 1.86 to 1for EEZ. The amount of positive economic benefit to Missouri would be some positive but unknown figure. The ROI on the New Jobs Training Credit was 2.24 to 1 in FY 2006. This positive economic benefit exists now and would still be in effect through FY 2008. The benefit would continue to be realized if the extension of this tax credit was implemented. The ROI factors times the dollars of credit issued would be the positive benefit realized.

Section 99.1200, Distressed Areas Land Assemblage Tax Credit -- $100M Cumulative Cap at $12M per year. Section 135.562 -- Disability Access Tax Credit. Provides tax credit to person that makes their dwelling accessible to individuals with disabilities up to $2,500 per taxpayer. Section 135.662 -- Qualified Equity Investment tax credit -- Cap is $15M per year. Section 135.750 -- Film Production tax credit -- Increase cap by $9M per year. Numerous other changes but no impact.

DED assumes the changes to the Missouri Quality Jobs, Enhanced Enterprise Z, and New Jobs Training Credit programs will create positive direct net economic benefit to Missouri. DED assumes the Enhanced Enterprise Zones will create new jobs directly and for every 10 new jobs created, an additional 7 jobs will be created indirectly from the impact of the credit. The Missouri Quality Jobs will create 8 new indirect jobs for each 10 jobs create by the direct impact of the credit. As an example: 4,200 direct and indirect jobs would in place at the end of 10 years if $12 million in new Missouri Quality Jobs credits were issued over 5 years. If $18 million in Enhanced Enterprise Zone credits were issued for five years, this would result in 3,800 new jobs at the end of 10 years. DED assumes the New Jobs Training Credit would create an estimated 1,600 new jobs per year and an estimated $8 million in direct economic benefits plus $4 million in indirect benefits per year. Future New Jobs Training Credit benefits would begin to decline in FY 2009 if the program is not extended.

DED assumes the need for four employees plus E & E to administer the Distressed Areas Land Assemblage Tax Credit , Disability Access Tax Credit, Qualified Equity Investment tax credit, and the increase in the Film Production tax credit cap. DED assumes all changes will make the over all impact unknown.

Oversight has, for fiscal note purposes only, changed the starting salary for DED’s Economic Development Incentive Specialists to correspond to the second step above minimum for comparable positions in the state’s merit system pay grid. This decision reflects a study of actual starting salaries for new state employees for a six month period and the policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. Oversight also assumes DED will not require additional office space for the four additional FTE and has reduced DED’s

ASSUMPTION (continued)

estimated expense accordingly.

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

- Section 99.1200 establishes a new tax credit with carry-forward provisions. Personal Tax would require 1 Tax Processing Technician I for every 6,000 credits claimed.

- Section 135.562 establishes a new tax credit that can be handled with existing staff.

- Section 135.662 establishes a new tax credit with carry-forward provisions; Personal Tax would require 1 Tax Processing Tech I for every 6,000 credits claimed.

- The recapture requirement would create an additional line on the MO-1040. Personal Tax will require 2 Temporary Tax Employee for key-entry, 1 Tax Processing Tech I for every 19,000 returns to be verified by Quality Review, and 1 Tax Processing Tech I for every 2,400 pieces of correspondence. They will also require 2 Temporary Tax Employees for key-entry of 1040P and PTC forms, and 1 Tax Processing Tech I for every additional 5,000 verified returns plus correspondence on the 1040P/PTC forms.

- Section 620.1881 requires a tax clearance prior to the issuance of any tax credits. Customer Assistance anticipates an increase in contacts on the delinquency phone lines. Therefore, CA would require 2 Tax Collection Technician I (1 for Quality Jobs & 1 for Enhanced Enterprise) for every additional 15,000 contacts. Customer Assistance also anticipates additional contacts in the field offices and would require 1 Tax Processing Technician I for every additional 4,800 contacts in the field. Customer Assistance expects most customers to contact our offices by phone, therefore, believe the field contacts could be handled with existing staff.

Due to the Statewide Information Technology Consolidation, DOR's response to a proposal will now also reflect the cost estimates prepared by OA-IT for impact to the various systems. As a result, the impact shown may not be the same as previous fiscal notes submitted. In addition, if the legislation is Truly Agreed to and Finally Passed the OA-IT costs shown will be requested through appropriations by OA-IT.

Office of Administration Information Technology (ITSD DOR) estimates the IT portion of this request can be accomplished within existing resources, however; if priorities shift, additional FTE/overtime would be needed to implement. Office of Administration Information Technology (ITSD DOR) estimates that this legislation could be implemented utilizing 2 existing CIT III for 2 months at a rate of $58,604.

ASSUMPTION (continued)

In summary, DOR anticipates the need for seven additional FTE plus two temporary employees. The total costs anticipated from the additional FTE is roughly $300,000 per year.

Oversight will assume the DOR could implement the changes in this proposal with four additional FTE plus the two temporary positions. Oversight has, for fiscal note purposes only, changed the starting salary for the Tax Processing Tech Is to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees for a six month period and the policy of the Oversight Subcommittee of the Joint Committee on Legislative Research.

Officials from the **Department of Insurance, Financial Institutions and Professional Registration (DIFP)** state it is unknown how many insurance companies will choose to participate in this program and take advantage of the tax credits. The department can not estimate how much would be lost in premium tax revenue as a result of tax credits. Credits cannot exceed total tax liability (both Premium tax and Retaliatory tax (135.662)). Premium/Retaliatory tax revenue is split 50/50 between General Revenue and County Foreign Insurance Fund except for domestic Stock Property and Casualty Companies who pay premium tax to the County Stock Fund. The County Foreign Insurance Fund is later distributed to school districts through out the state. County Stock Funds are later distributed to the school district and county treasurer of the county in which the principal office of the insurer is located. It is unknown how each of these funds may be impacted by this tax credit each year.

DIFP will require minimal contract computer programming to add this new tax credit to the premium tax database and can do so under existing appropriation. However, should multiple bills pass that would require additional updates to the premium tax database, the department may need to request more expense and equipment appropriation through the budget process.

Officials from the **Department of Higher Education (DHE)** state the impact of this legislation on their agency is unknown, but it may be significant. Section 178.715 allows for the establishment of a vocational school district(s), which is a new category of a post-secondary institution in one or more specific counties in Missouri. It is not clear whether one institution is to encompass all counties as defined in the legislation or if each county could establish such an institution. Three of the counties defined overlap with an existing community college district. This may cause conflict if the same types of programs are potentially offered in both districts. If a vocational school district or multiple vocational school districts are established, the DHE would be required to establish standards for organization of the district(s), conduct a study to determine if the standards were met , and monitor the establishment of the vocational school district. Program approval may be required by the DHE and the availability of state aid for these

ASSUMPTION (continued)

districts may need to be considered. Considering the scope of this legislation, it has been determined that 1.0 FTE would be necessary to develop standards, administer and monitor the establishment of this new type of institution.

Section 620.1881 addresses the issuance of tax credits which could have a significant impact on the amount of general revenue available for appropriation, which could result in an unknown impact on the DHE.

Based on the requirements contained in this legislation, the DHE has projected that 1.0 FTE at the Research Associate level (at $35,000 annually) would be necessary to implement the provisions of this legislation. DHE assumes this additional FTE to cost roughly $55,000 annually.

Officials from the **Office of the Secretary of State - Administrative Rules (SOS)** assume many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The Secretary of State's office 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 Secretary of State's office for Administrative Rules is less than $2,500. The Secretary of State's office recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize 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 our office can sustain with our core budget. Therefore, we reserve 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.

Section 135.535 & 135.562: Since this proposal utilizes unused Rebuilding Communities tax credits for another program, this will result in an increased utilization of the tax credits. This program could result in an additional $100,000 in tax credits being used for persons that modify a home for a disabled person. However, since **Oversight** has already reflected the potential loss of the Rebuilding Communities tax credit program of up to annual limit, Oversight will assume this proposal does not increase the annual limit (of $8 million), and therefore, the fiscal impact of the proposal has already been reflected in a prior fiscal note. Therefore, even though this proposal will increase utilization of the tax credit program, Oversight will not reflect an additional loss of revenue to the General Revenue Fund.

Section 144.054 creates a sales tax exemption for energy used in the manufacturing of a product. Officials from the Department of Revenue stated there currently is an exemption under Section 144.030.2 (12), which companies have to qualify for. DOR assumes this new section in statutes

ASSUMPTION (continued)

would expand this exemption and make it easier to qualify for. DOR could not provide an estimate of the loss of revenue from this section of the proposal. Since some of the energy used in the manufacturing of a product is already exempt from sales tax, **Oversight** will not be able to utilize the estimate provided by BAP or calculate an estimate based on information provided by the Statistical Abstract of the United States. Therefore, Oversight must simply assume an unknown amount of loss in revenue to the state and local political subdivisions from this section.

Oversight assumes the new Small business job retention and flood survivor relief within the Quality Jobs program (620.1881.3 (5)) will be using existing credits under the new $30 million cap. Therefore, Oversight will not reflect a potential fiscal impact of $250,000 or $500,000 annually from this program.

Oversight assumes the many changes made to the various programs (including opening up the programs to charitable organizations or adding language making credits sellable or transferable) may increase the utilization of the programs and therefore increase the issuances of the tax credits. However, the fiscal notes from when these programs were created or last updated, reflected the potential loss of income to the state of $0 up to the annual limits. Therefore, while these changes may result in increased utilization of the programs, Oversight will not reflect additional fiscal impact.

Oversight assumes extending the sunset date in which community colleges may sell certificates for the Community College New Jobs Training program from 2008 to 2018 will have a negative fiscal impact to the state, but would be in fiscal years beyond the scope of this fiscal note.

Oversight compared the total tax credit issuances relative to the total tax credit redemptions for the previous three years in order to determine a relationship between the two. Oversight discovered that the annual redemptions ranged from 79 percent to 86 percent of the annual issuances. Depending on the program, the redeemed credits may have been issued several years prior and carried forward to the years studied; however, Oversight will utilize an estimated redemption total of 83 percent of tax credits issued.

Oversight will range the fiscal impact of the new program and the expansion of the existing programs from $0 (no additional tax credits will be issued) to the annual limit on the new program or the change in annual limits on the existing programs.

Oversight assumes there would be some positive economic benefit to the state as a result of the changes in this proposal, however, Oversight considers these benefits to be indirect and therefore, have not reflected them in the fiscal note.

<u>ASSUMPTION</u> (continued)

This proposal could reduce Total State Revenues.

FISCAL IMPACT - State Government	FY 2008 (10 Mo.)	FY 2009	FY 2010
GENERAL REVENUE			
Savings - Rebuilding Communities tax credit program (Section 135.535)	$0 to $100,000	$0 to $100,000	$0 to $100,000
Costs - Department of Economic Development (DED)			
Personal Service	($131,428)	($162,445)	($167,318)
Fringe Benefits	($59,484)	($73,523)	($75,728)
Expense and Equipment	($29,684)	($36,689)	($37,789)
Total Costs - DED	($220,596)	($272,657)	($280,835)
FTE Change - DED	4 FTE	4 FTE	4 FTE
Costs - Department of Revenue			
Personal Service (4 FTE)	($73,418)	($90,745)	($93,468)
Temporary Employees (2 temps)	($13,325)	($16,390)	($16,799)
Fringe Benefits	($33,229)	($41,071)	($42,303)
Expense and Equipment	($31,215)	($11,549)	($11,895)
Total Costs - DOR	($151,187)	($159,755)	($164,465)
FTE Change - DOR	4 FTE	4 FTE	4 FTE
Costs - Department of Higher Education			
Personal Service (1 FTE)	($30,042)	($37,132)	($38,245)
Fringe Benefits	($13,597)	($16,806)	($17,310)
Expense and Equipment	($5,954)	($309)	($318)
Total Costs - DHE	($49,593)	($54,247)	($55,873)
FTE Change for DHE	1 FTE	1 FTE	1 FTE
Loss - DED			
Distressed Areas Land Assemblage Tax Credit (Section 99.1200)	$0	$0 to ($12,000,000)	$0 to ($12,000,000)
Loss - DED tax credits for making all or portion of dwelling accessible to an individual with a disability (135.562)	$0 to ($100,000)	$0 to ($100,000)	$0 to ($100,000)

Loss - tax credit for qualified equity investments (Section 135.662)	$0	$0	$0 to ($15,000,000)
Loss - DED Film production credits cap raised from $1.5 million to $10.5 million (135.750)	$0	$0 to ($9,000,000)	$0 to ($9,000,000)
Loss - DED Enhanced Enterprise Zone program (increase annual cap from $7 million to $25 million) Section 135.967	$0 to ($18,000,000)	$0 to ($18,000,000)	$0 to ($18,000,000)
Loss - DOR Sales tax exemption for energy used in manufacturing (Section 144.054)	(Unknown)	(Unknown)	(Unknown)
Loss - DED Missouri Quality Jobs Act (increase to annual cap in 620.1881.5 from $12 million to $30 million)	$0 to ($18,000,000)	$0 to ($18,000,000)	$0 to ($18,000,000)
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	**($421,376 to Unknown - could exceed $36,421,376)**	**($486,659 to Unknown - could exceed $57,486,659)**	**($501,173 to Unknown - could exceed $72,501,173)**
Estimated Net FTE Change for General Revenue Fund	9 FTE	9 FTE	9 FTE

Note: This proposal expands the Quality Jobs program by allowing tax credits to be utilized against Chapter 148 taxes. The fiscal note does not reflect the possibility that some of the tax credits could be utilized by insurance companies against insurance premium taxes. If this occurs, the loss in tax revenue would be split between the General Revenue Fund and the County Foreign Insurance Fund, which ultimately goes to local school districts.

OTHER STATE FUNDS

Loss - School District Trust Fund Sales tax exemption (Section 144.054)	(Unknown)	(Unknown)	(Unknown)

Loss - Conservation Fund			
Sales tax exemption (Section 144.054)	(Unknown)	(Unknown)	(Unknown)
Loss - Parks and Soil Fund			
Sales tax exemption (Section 144.054)	(Unknown)	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON ALL OTHER STATE FUNDS	**(Unknown)**	**(Unknown)**	**(Unknown)**

FISCAL IMPACT - Local Government	FY 2008 (10 Mo.)	FY 2009	FY 2010
LOCAL GOVERNMENT			
Loss - Local Governments			
Sales tax exemption (Section 144.054)	(Unknown)	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS	**(Unknown)**	**(Unknown)**	**(Unknown)**

FISCAL IMPACT - Small Business

Small businesses that qualify for the various programs added or changed in this proposal could be fiscally impacted as a result of this proposal.

FISCAL DESCRIPTION

Section 99.1200 creates the distressed areas land assemblage tax credit program, administered by the department of economic development. Tax credits issued under the distressed area land assemblage tax credit act, are non-refundable, fully transferrable income, corporate franchise, and financial institutions, tax credits. Tax credits issued under the act will be equal to fifty percent of the acquisition costs for the land, and one hundred percent of the interest costs. The tax credit program is capped at one hundred million dollars and the total amount of tax credits issued annually is limited to twelve million dollars.

Sections 135.535 and 135.562 enables a taxpayer making less than $30,000 per year who modifies their home to be accessible to a disabled person who resides with the taxpayer, to claim a credit against their income tax for one hundred percent of the costs of modification, up to $2,500. For taxpayers making between $30,000 and $60,000, a credit will be allowed in the amount equal to fifty percent of the costs of modification, up to $2,500. All tax credits will be refundable, up to $2,500 per year. The credits are not transferrable. The credit has a statewide maximum of $100,000 per year. If ten million dollars in tax credits are not approved, for programs authorized under the rebuilding communities tax credit program, then up to the first one hundred thousand dollars in tax credits shall be used for the home modification tax credit created by this act.

Section 135.662 provides an income tax credit in an amount equal to the applicable percentage of the adjusted purchase price paid to the issuer of a qualified equity investment. The applicable percentage is zero percent for each of the first two credit allowance dates and seven percent for the third credit allowance date and eight percent for the next four credit allowance dates. The tax credit is non-refundable and non-transferrable, but tax credits earned by "pass - through entities" may be allocated to the partners, members, or shareholders of the entity for their direct use. To the extent that the tax credits issued exceed a taxpayer's liability, the remaining tax credits may be carried forward until fully claimed. The tax credit has an annual aggregate cap of fifteen million dollars. The act contains provisions allowing the Department of Economic Development to recapture tax credits issued under the act in certain situations.

Section 135.750 modifies provisions of the film production tax credit program by lowering the minimum expected in-state budget expenditure, from $300,000 to $50,000 for qualified film production projects less than thirty minutes in length or to $100,000 for a project longer than thirty minutes, for tax years beginning on or after January 1, 2008. The act removes the limitation on the amount of tax credits which may be issued annually per taxpayer for all tax years beginning on or after December 31, 2007. The annual aggregate cap on all tax credits certified under the program is increased from one million five hundred thousand dollars to ten million five hundred thousand dollars.

<u>FISCAL DESCRIPTION</u> (continued)

Sections 135.950, 135.963 & 135.967 modifies provisions of the Enhanced Enterprise Zone Tax Benefit Program. The act modifies the definition of the term "employee". The act places new requirements on eligibility regarding the number of new employees and average employee wage.

The act extends tax benefits under the enhanced enterprise zone tax benefit program to certain speculative industrial or warehouse buildings. The amount of money which may be issued for enhanced business enterprises by the department of economic development after December 31, 2006, is increased from seven million to twenty-five million dollars.

Section 144.054 would provide an exemption from state and local sales and use tax for the costs of utilities, chemicals, machinery and equipment, and materials used to produce a product.

Sections 178.895 and 178.896 extends the sunset for the Community College New Jobs Training Program and allows community college districts to continue to sell certificates until July 1, 2018. The act modifies the determination of county average wage where a qualified company relocates employees from one Missouri county to another. A county from which a qualified company plans to relocate may object to the issuance of benefits under this section and preclude such issuance of certain benefits upon proper notification to the department of economic development.

Within Sections 620.1878 and 620.1881, the act requires that businesses offer health insurance to all full-time employees in the state and pay at least fifty percent of such premiums in order to be a qualified company. The act excludes educational services, religious organizations, and public administration from the term "qualified company". The act allows companies which are excluded from the definition of qualified company to receive benefits under the program provided they meet certain additional requirements. The act allows for the use of tax credits issued under the Missouri Quality Jobs Act to be used to offset both Missouri income tax and the financial institutions tax liabilities.

Within Sections 620.1878 and 620.1881, the act allows for the increase of the calendar year annual maximum number of quality jobs training tax credits issued to a qualified company which also participates in the new job training program by an amount equal to the withholding tax retained by such company under the new job training program provided it does not exceed the projected state benefit of the project. The act allows for an increase in the calendar year annual maximum amount of tax credits issued for high impact projects if the number of new jobs will exceed five hundred and such action is proposed by the department and approved by the quality jobs advisory task force.

Within Sections 620.1878 and 620.1881, the maximum calendar year annual tax credits issued under the Missouri Quality Jobs Act is increased from twelve million dollars to thirty million dollars. Prior to the issuance of tax credits under the Missouri Quality Jobs Act, the department

<u>FISCAL DESCRIPTION</u> (continued)

of economic development must verify through the department of revenue that the qualified company does not owe any delinquent income, sales, or use taxes, or interest or penalties on such taxes and through the department of insurance that the applicant does not owe any delinquent insurance taxes. If the qualified company has a tax delinquency, the tax credits issued under the Missouri Quality Jobs Act shall first be applied to such delinquency with the remainder, if any, to then be issued to the company.

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 Administration - Budget and Planning
Department of Revenue
Department of Insurance, Financial Institutions and Professional Registration
Office of the Secretary of State
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