COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1217-07
Bill No.: SS for SCS for HCS for HB 327 with SA2, SA3, SA4, SA5, SA6, SA7, SA8, SA9, SA10, SA11, SA12, SA13, SA14, SA15, SA16, SA17, SA18, SA19, SA20, SA22, SA23, SA24, SA25, SA27, SA28 and SA29
Subject: Business and Commerce; Economic Development; Insurance Department; Taxation and Revenue
Type: Original
Date: April 16, 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	(More than $1,582,294) - could exceed ($48,582,294)	(More than $1,613,665) - could exceed ($73,113,665)	(More than $1,636,388) - could exceed ($97,136,388)
Total Estimated Net Effect on General Revenue Fund*	**(More than $1,582,294) - could exceed ($48,582,294)**	**(More than $1,613,665) - could exceed ($73,113,665)**	**(More than $1,636,388) - could exceed ($97,136,388)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Road Fund	(More than $5,902,502)	(More than $3,525,000)	(More than $3,548,000)
Various other State Funds	(More than $824,015)	(Unknown)	(Unknown)
Total Estimated Net Effect on Other State Funds*	**(More than $6,726,517)**	**(More than $3,525,000)**	**(More than $3,548,000)**

*** 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 38 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	20 FTE	20 FTE	20 FTE
Total Estimated Net Effect on FTE	**20 FTE**	**20 FTE**	**20 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*	**$941,714 to (Unknown)**	**$1,834,000 to (Unknown)**	**$1,857,000 to (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.

BAP also states that in several sections the following language is added "Notwithstanding any other law to the contrary, any tax credits granted under this section may be assigned, transferred, sold, or otherwise conveyed without consent or approval". This will likely ensure that a greater percentage of the tax credits issued will be redeemed. Currently the amount redeemed is less than 100%, therefore, it will increase the actual reduction to general and state revenues.

Officials from the **Department of Economic Development (DED)** states the addition of "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." should have no impact to the various sections where it was added.

ASSUMPTION (continued)

Section 99.1200 - Distressed Areas Land Assemblage Tax Credit Act;

Officials from the **Office of Administration - Budget and Planning** state this part of the proposal creates the Distressed Areas Land Assemblage Tax Credit program. The program provides for a fifty percent tax credit on acquisition costs and one-hundred percent on interest costs incurred on an eligible parcel of land for a period of six years. The tax credits may be carried forward for five 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.

Officials from the **Department of Economic Development (DED)** state 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.

Officials from the **Department of Revenue (DOR)** state 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.

Sections 135.535 & 135.562 - Rebuilding Communities and Home Accessibility Tax Credit;

Budget and Planning state this part of 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 one hundred thousand 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.

Officials from the **Department of Economic Development** this provides tax credits to persons that make their dwelling accessible to individuals with disabilities up to $2,500 per taxpayer. DED assumes 1 FTE to administer the program.

ASSUMPTION (continued)

The **Department of Revenue** states Section 135.562 establishes a new tax credit that can be handled with existing staff.

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 135.662 - Qualified Equity Investment;

Officials from **Budget and Planning** state this part of the proposal 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.

Officials from **DED** state the cap on this program is $15 million per year and assume the need for 1 FTE to administer the program.

Officials from the **Department of Revenue** state 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.

ASSUMPTION (continued)

The applicable percentage for the tax credits is zero for the first two years and seven percent in year three. The annual cap on this program is $15 million. Therefore, **Oversight** will assume a potential loss of General Revenue income of $0 to $15 million in the third fiscal year.

Section 135.750 - Film tax credits;

Officials from **Budget and Planning** state this part of 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 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.

Officials from the **Department of Economic Development** state this part of the proposal increases the cap by $9 million per year. DED assumes the need for an additional FTE to administer the now larger program.

Oversight assumes the increase in the cap is for tax years beginning January 1, 2008, therefore, Oversight will show the fiscal impact of this change starting in FY 2009.

Sections 135.950 - 135.937 Enhanced Enterprise Zones;

Officials from **Budget and Planning** state this part of the proposal 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.

Officials from the **Department of Economic Development** state this proposal increases the cap from $7 million to $25 million.

Section 142.817 - Sales tax exemption for motor fuel for Public Mass Transportation;

Budget and Planning states this part of the proposal exempts motor fuel sold for use in operating public transportation systems from the state motor fuel tax. The proposal could therefore lower general and state revenues by an unknown amount. Budget and Planning does

ASSUMPTION (continued)

not have data to estimate the potential loss of revenues, the Department of Revenue may have such an estimate.

In response to a similar proposal from this year (SB 501), officials at the **Missouri Department of Transportation** (**MoDOT**) assumed this legislation exempts motor fuel used for certain public transportation purposes from motor fuel tax.

MoDOT calculated that in Fiscal Year 2006 that transit authorities consumed an estimated 9,943,211 gallons of gasoline at the State Gas Tax Rate of $.17 per gallon for a total of $1,690,346 in gas tax being paid. MoDOT then calculated the loss of that money for the state, cities and counties.

In response to a similar proposal from this year (SB 501), officials at the **Department of Revenue** (**DOR**) assumed no fiscal impact to the DOR from this proposal. DOR assumes this legislation establishes an exemption. Exemptions reduce state tax due, therefore it will reduce state revenues.

The excise tax section anticipates additional refunds to process due to this exemption. This may impede process time. DOR currently does not track fuel usage, therefore, cannot determine the loss of fuel tax revenues the state will experience due to this exemption. Due to the Statewide Information Technology Consolidation, the department's response to a proposal will now also reflect the cost estimates prepared by OA-IT for impact to the various systems. 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 1 existing CIT III for 1 month at a rate of $4,186

In response to a similar proposal from this year (SB 501), officials at the **City of Kansas City** stated this bill applies to a city transportation authority. The City of Kansas City does not operate a transportation authority, those mass transit services are provided by the Kansas City Area Transportation Authority, which is partially funded by Kansas City. Any savings enjoyed by the KC ATA may be indirectly enjoyed by the City of Kansas City through greater services for the money now spent for transportation services if the KC ATA has additional funds available.

Oversight assumes the motor fuel tax exemption will be a loss to the Road Fund.

ASSUMPTION (continued)

Sections 143.006, 144.605 & 147.010 - Nexus;

Officials from the **Office of Administration - Budget and Planning** state this part of the proposal modifies provisions of income, sales and use and corporate franchise tax statutes to exclude certain business contacts from consideration in the determination of whether or not nexus exists for tax purposes. There is an emergency clause for these provisions within the proposal.

Officials from the **Department of Revenue** state sections 143.006, 144.605 & 147.010 would allow corporations and individuals to not have nexus in Missouri, for income tax purposes if they:

Is a related taxpayer within the meaning of the definition found in subdivision (9) of section 135.100, RSMo, in regard to either a distribution facility in this state or a data storage facility in this state;

(a) Utilizes such distribution facility;
(b) Utilizes property at such distribution facility that is used at, or distributed from, that facility;
(c) Sells property shipped or distributed from such distribution facility;

Oversight assumes if certain companies are considered to not have nexus as a result of this proposal, this would decrease tax collections by an unknown amount.

Section 144.030 - Sales tax exemption on Railroad rolling stock;

In response to a similar proposal from this year, officials from the **Department of Transportation** state this part of the proposal would expand the current sales tax exemption of commercial motor vehicles licensed for a gross weight of 24,000 pounds or more or trailers used by motor carriers solely in the transportation of person or property in interstate commerce. The proposal would delete the word "solely" and "in interstate commerce", resulting in expansion of the sales tax exemption for those commercial motor vehicles purchased by any motor carrier who transports persons or property, whether in interstate or intrastate commerce. MODOT has no basis for estimating the negative impact therefore, there is a negative unknown fiscal impact from this proposal.

ASSUMPTION (continued)

Section 144.054 - Sales tax exemption on materials used in manufacturing;

Officials from the **Office of Administration - Budget and Planning (BAP)** state this part of 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.

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 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.

Section 178.715 with Senate Amendment 6;

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 at least one vocational school district, which is a new category of

ASSUMPTION (continued)

post-secondary institution, in one or more specific counties in Missouri. It is not clear whether one institution is to serve all of the counties listed in the legislation or if each county could establish its own institution. Three of the counties listed in this amendment overlap with an existing community college district. This may cause conflict if the same types of programs are 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(s). Program approval may be required by the DHE and the availability of state aid for these districts may need to be considered. Considering the scope of this legislation, 1.0 FTE would be necessary to develop, administer, and monitor the standards for establishment of this new type of institution.

Based on the requirements contained in this legislation, the DHE has projected that 1.0 FTE at the Research Associate level, currently estimated at $49,593 in salary plus benefits and associated expense and equipment, would be necessary to implement the provisions of this legislation. This represents costs for the first year (FY 2008) with corresponding anticipating increases for FY 2009 and FY 2010.

Sections 178.895 & 178.896 - Community College Job Training program;

Officials from the **Office of Administration - Budget and Planning** state this part of the proposed legislation 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.

Officials from **DED** assume no impact from this part of the proposal.

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.

Sections 620.1878 - 620.1881- Quality Jobs Program;

Officials from the **Office of Administration - Budget and Planning** state this part of the proposal modifies the Missouri quality jobs program by increasing the annual cap of tax credits available from twelve million dollars to thirty million dollars. The proposal includes tax credits for qualified companies paying a portion of employee tuition; the cap for this program is set at

ASSUMPTION (continued)

two hundred and fifty thousand dollars. This proposal could therefore lower general and state revenues by that amount. This program may stimulate other economic activity, but BAP does not have data to estimate the induced revenues. The Department of Economic Development may have such an estimate.

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** state this part of the proposal 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.

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.

Officials from the **Department of Revenue** state 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, Customer Assistance would require 2 Tax Collection Technician I (1 for Quality Jobs and 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.

Officials from the **Department of Economic Development (DED)** assumed the change to the Missouri Quality Jobs (MQJ), Enhanced Enterprise Zone (EEZ), and New Jobs Training (NJTC) programs will create positive direct net economic benefit to Missouri. DED assumes the EEZ 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 MQJ will create 8 new indirect jobs for each 10 jobs create by the direct impact of the credit. As an example: 4200 direct and indirect jobs would in place at the end of 10 years if $12 million in new MQJ credits were issued over 5 years.

ASSUMPTION (continued)

If $18 million in EEZ credits were issued for five years, this would result in 3,800 new jobs at the end of 10 years. DED assumes the NJTC would create an estimated 1600 new jobs per year and an estimated $8 million in direct economic benefits plus $4 million in indirect benefits per year. Future NJTC benefits would begin to decline in FY 2009 if the program is not extended.

Officials from the **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 4 existing CIT III for 8 months, 2 CIT III for 1 month, and an additional 3 CIT III for 2 months at a rate of $159,068.

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 these program and take advantage of these 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). 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 these tax credits each year.

In 620.1881.2 it states that DOR can issue a refundable tax credit. The department has not dealt with refundable tax credits through Premium Tax before and assumes any refundable credit will be paid from General Revenue and not the County School Funds.

The department will require minimal contract computer programming to add these new tax credits to the premium tax database and should be able to 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 **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

ASSUMPTION (continued)

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.

Senate Amendment 4;

Officials from the **Office of Administration - Budget and Planning (BAP)** state this modifies the Missouri Homestead Preservation Act by allowing the general assembly and the office of administration to reassess the calculation necessary to set the exemption limit for the program. In so doing, the General Assembly could appropriate sufficient funds to offset any increase in property tax liability experienced by eligible taxpayers in a given year. This change could therefore lower general and state revenues by an unknown amount in the event that such an appropriation is made.

Officials from the **Department of Revenue** state their Taxation section cannot provide an administrative impact, as the intent of this legislation is unknown. The language states DOR is to provide the levels of appropriation...but it does not appear the legislature is required to appropriate any funds. If the intent was known, DOR could provide a better explanation of the anticipated outcome.

Oversight assumes the amendment only requires information to be calculated and provided by the DOR. Oversight assumes the amendment would not have a fiscal impact.

Senate Amendment 5;

Officials from the **Department of Revenue (DOR)** state for section 135.710, Personal Tax would require 1 Tax Processing Technician I for every 6,000 credits claimed. Personal Tax would also require 1 Tax Processing Technician I for every 2,000 credits claimed due to the equal apportionment among all applicants.

Corporate Tax would require 1 Tax Processing Technician 1 for tracking, processing, and corresponding.

However, based on information received in the FY06 session, there are approximately 800

ASSUMPTION (continued)

taxpayer's who qualify for this tax credit; therefore, Taxation anticipates, being able to handle this new credit, with existing staff.

DOR states section 143.114 Personal Tax would require Taxation to add a line to the Form MO-A. Personal Tax will require 2 Temporary Tax Employee for key-entry, 1 Tax Processing Tech I for every 19,000 returns to be verified, 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 returns to be verified on the 1040P/PTC forms.

DOR states section 143.128 - Personal Tax would require 1 Tax Processing Technician for every 4,000 credits claimed.

Officials from the **Department of Transportation (MoDOT)** state Section 144.030 (40) creates various sales tax incentives for certain energy uses, particularly all new motor vehicles that can operate on E85 fuel. We assume this legislation will likely encourage consumers to purchase E85 vehicles instead of gasoline-only vehicles on those models which have that substitute. We also assume E85 and sister model sales will remain constant over time. The minimum loss of sales tax revenue to the road fund due to exempting sales tax on the purchase of any new motor vehicle that can operate on E85 fuel would be $2,983,502 in FY 2008. MoDOT assumes the loss of sales tax revenue for other funds would be $426,215 to General Revenue, $568,286 to School Fund, $142,072 to Conservation Fund, $113,567 to Parks and Soils Fund, and $568,286 to Cities and Counties.

Officials from the **Department of Natural Resources (DNR)** state regarding the Tax Credits - Alternative Fuel Facilities, DNR may be requested to provide information regarding eligible "Qualified alternative fuel vehicle refueling property".

Regarding the Hybrid Motor Vehicles: Income Tax Deduction, DNR may also be asked to provide information regarding eligible "Qualified hybrid motor vehicles".

DNR states the would not anticipate a significant direct fiscal impact from this amendment.

Officials from the **Department of Agriculture** assume no fiscal impact from this amendment.

Section 143.114: Purchase of hybrid vehicle

Officials at the **Department of Revenue** (**DOR**) assume this legislation allows any taxpayer who purchases a qualified hybrid vehicle, a subtraction from the Missouri Adjusted Gross Income of

ASSUMPTION (continued)

up to $1,500 or 10% of the purchase price (whichever is less) of the qualified vehicle, for the tax year in which the purchase was made. This deduction will begin on or after January 1, 2008. DOR is to establish procedures by which the deduction may be claimed.

DOR's Personal Tax - would require Taxation to add a line to the Form MO-A. Personal Tax will require 2 Temporary Tax Employee for key-entry, 1 Tax Processing Tech I for every 19,000 returns to be verified, 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 returns to be verified on the 1040P/PTC forms..

Officials from the Office of Administration - Budget and Planning (BAP) state this amendment creates several tax incentives for the use of alternative fuels - tax credits for the installation of equipment needed to provide such fuel (the cap for this program is set at three million dollars and decreases by one million each year after until it is phased out completely), tax deductions for the purchase of a hybrid vehicle, and a tax credit for any individual who purchases alternative fuel (the annual cap for the program is set at five hundred thousand dollars). The proposal also exempts sales of E85 vehicles from state sales tax. The proposal could therefore lower general and state revenues by an unknown amount. Budget and Planning does not have the data to estimate the loss, the Department of Revenue may have such an estimate.

In response to a similar proposal from this year, SB 40, BAP assumed the legislation provides a deduction from Missouri adjusted gross income, up to $1,500, for the purchase of a qualifying hybrid vehicle. According to a 5/4/2006 article published on the Auto Channel website, 199,148 new hybrids were registered in 2005, more than double the amount in 2004. However, Missouri was not among the Top Ten states for registration, which accounted for 62% of total registrations. BAP estimates Missouri had 0.9% of the registrations, or roughly 1,800 registrations. At $1,500 dollars for each, this would reduce Missouri AGI by $2,700,00, and reduce general and total state revenues by $162,000 (at the 6% tax rate). It is likely sales of these cars will climb as their popularity increases.

Oversight researched the number of hybrids sold in the United States in 2006 and found it was 252,636. Oversight recognizes that it is difficult to determine the number of those hybrids that are sold in Missouri since the figures are not tracked. Oversight used 2% of all hybrids sold as the number sold in Missouri. For the purpose of this note it was determined 5,053 hybrids were sold in Missouri and assumed each taxpayer would take the maximum reduction of $1,500 for a total reduction to taxpayers AGR of $7,579,500. Oversight recognizes that since the number of hybrids being sold is increasing, the loss to state revenue "could exceed" $341,078 assuming a 4.5% marginal tax rate starting in Fiscal Year 2009.

ASSUMPTION (continued)

Senate Amendment 7;

Officials from the **Department of Conservation** assume this amendment would not fiscally impact their agency.

Senate Amendment 8;

Officials from the **Department of Transportation** state this amendment creates a sales and use tax exemption for purchases of aviation fuel for transoceanic flights in the Aviation Trust Fund. In FY 2006, we received an estimated $400,000 in jet fuel sales tax in to the fund. It would be difficult to estimate what percentage of this figure came from transoceanic flights.

Officials from the **Office of Administration - Budget and Planning** state this provides a sales tax exemption on jet aviation fuel for any company providing transoceanic flights. The proposal could therefore lower general and state revenues by an unknown amount. Budget and Planning does not have the data to estimate the loss, the Department of Revenue may have such an estimate.

Oversight assumes that currently there are no transoceanic flights originating from Missouri, and therefore, assume this amendment would have no fiscal impact at the current time.

Senate Amendment 9;

Officials for the **State Tax Commission (TAX)** state this proposal appears to allow a railroad authority to be organized and operated as a political subdivision. TAX assumed that only property acquired by a railroad authority to expand their services would be exempt from property taxes. TAX assumes that all property currently owned by the railroad would still be subject to property taxes.

Officials from the **Department of Transportation** did not respond to our request for fiscal impact regarding is amendment.

Oversight will assume this amendment is permissive to every municipality and county in the state (to form a regional railroad authority). Therefore, Oversight will assume this amendment will have no direct fiscal impact on local political subdivisions, unless they choose to create such an authority. The amendment is also permissive to the state of Missouri to transfer or cause to be transferred any property to such authority.

ASSUMPTION (continued)

Senate Amendment 10;

Officials from the **Department of Economic Development (DED)** state SA 10 adds SB 318 Tuition Reimbursement at a cost of $250,000 in credits with no other impact projected by DED

Oversight assumes the tuition reimbursement program enacted with this amendment would be under the Quality Jobs Act program and would fall under that program's total annual cap of tax credits (changed from $12 million to $30 million). Therefore, Oversight will not assume an additional $250,000 of tax credits (above the $30 million total cap) can be issued. Since Oversight has ranged the fiscal impact of the Quality Jobs Act from $0 to ($30 million) already, Oversight assumes this amendment will not create an additional fiscal impact to the state.

Senate Amendment 11;

Officials from the **Office of Administration - Budget and Planning (BAP)** state this establishes the Small Business and Entrepreneurial Growth Act for small business employers who expand their business by increasing the number of jobs and meeting certain qualifications. Beginning January 1, 2008, a qualified employer can retain the Missouri withholding tax from the salaries of the newly created jobs for one year; or if the employer pays more than 50% of the cost of the premiums for health insurance for all employees, the withholding tax can be retained for two years. The proposal could therefore lower general and state revenue by an unknown amount. Budget and Planning does not have the data to estimate the loss, the Department of Revenue may have such an estimate. This program may stimulate other economic activity, but Budget and Planning does not have data to estimate the induced revenues.

Officials from the **Department of Economic Development** state SA 11 adds HB 365, 804, and 805 Small Business and Entrepreneurial Growth Act with unknown cost and unknown positive or negative benefits. DED assumes the need for one Economic Development Incentive Specialist II and associated costs.

Senate Amendment 12;

Officials from the **Department of Transportation** assume no fiscal impact from this amendment.

Senate Amendment 13;

Officials from the **Department of Transportation** assume no fiscal impact from this

ASSUMPTION (continued)

amendment.

Senate Amendment 18;

Officials from the **Department of Social Services** did not respond to our request for fiscal impact.

Officials from the **Office of Administration - Budget and Planning (BAP)** state this expands the cap on tax credits currently available for contributions to maternity homes from two million dollars to three million dollars. The proposal could therefore lower general and state revenue by one million dollars annually.

Oversight assumes raising the annual limit on the Maternity Homes tax credit could reduce total state revenues by up to $1 million annually.

Senate Amendment 19;

Officials from the **Office of Administration - Budget and Planning (BAP)** state this creates a tax credit program for individuals who contribute to the preservation of civil war sites. The credits are issued if there is one hundred thousand dollars of unused Neighborhood Assistance grants. The annual cap for the program is set at one hundred thousand dollars therefore; the proposal could lower general and state revenue by that amount.

Officials from the **Department of Economic Development** assume no fiscal impact from this amendment unless volumes of credit applications are more than expected.

Officials from the **Department of Revenue** assume section 135.571 Personal Tax would require 1 Tax Processing Technician for every 6,000 credits claimed.

Similar to the funding for the tax credit in Section 135.562, since this proposal utilizes unused Neighborhood Assistance Program 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 who contribute to an organization for the preservation of Missouri's Civil War Sites. However, since **Oversight** has already reflected the potential loss of the Neighborhood Assistance Program tax credit program of up to annual limit, Oversight will assume this proposal does not increase the annual limit, 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

ASSUMPTION (continued)

revenue to the General Revenue Fund.

Senate Amendment 20;

Officials from the **Department of Labor and Industrial Relations** assume this amendment would not fiscally impact their agency.

Officials from the **Department of Economic Development** and the **Department of Insurance, Financial Institutions and Professional Registration** did not address this amendment in their responses.

Oversight could not find legislation previously filed that would be similar to this amendment. Oversight assumes the board will incur some meeting and travel reimbursement expenses under the Department of Economic Development; however, Oversight assumes this amount will be minimal and will not reflect a fiscal impact from this amendment.

Senate Amendment 25;

Officials from the Department of Economic Development state SA 25 creates the Small Business Tax Credit Review Committee in DED. DED anticipates meeting and travel costs below those usually projected because some of the 5 member committee are DED employees. However, DED will be providing support for this new $10 million per year tax credit program. DED anticipates the need for one Economic Development Incentive Specialist III and associated costs. Committee support costs are projected to be a flat $5,000 per year.

The amendment states that $10 million of credits each fiscal year shall be available effective August 28, 2007; therefore, **Oversight** will assume these credits could be redeemed in fiscal year 2008. Oversight will range the fiscal impact of the tax credits from $0 (no credits being redeemed in a given year) to the annual limit of $10,000,000.

Senate Amendment 27;

Officials from the **Department of Public Safety** and the **Office of the State Courts Administer** each assume the proposal would not fiscally impact their respective agencies.

Senate Amendment 28;

Officials from the **Department of Agriculture** assume this amendment would not fiscally

ASSUMPTION (continued)

impact their agency.

Officials from the **Department of Transportation (MoDOT**) state according to DESE they expect a 1.03% bus travel growth annually. The total bus miles traveled during the 2004-05 school year was 126,067,918. The average school bus gets 7 miles per gallon. Total gallons used (126,067,918/7 = 18,009,702.57). That would be an income loss of $3,061,649.44.

Adding the 1% growth rate the impact would be $2,577,000 for FY 08 - partial year, $3,122,000 for FY 09, and $3,154,000 for FY 2010. MODOT provided the following allocation of lost revenues (rounded):

	FY 2008	FY 2009	FY 2010
Road Fund	($1,887,000)	($2,287,000)	($2,310,000)
Cities	($387,000)	($468,000)	($473,000)
Counties	($303,000)	($367,000)	($371,000)
Total	($2,577,000)	($3,122,000)	($3,154,000)

Officials from the **Department of Elementary and Secondary Education** (DESE) assume this proposal would create a savings to school districts and a loss to the state. DESE calculates that total miles traveled by school district owned and contracted buses were 126,067,918 for the 2005-2006 school year. By dividing total miles by an average of 7 miles per gallon, this yields 18,009,703 gallons of fuel used annually. Multiplying gallons of fuel used by 17 cents per gallon (the current Missouri fuel tax) results in an estimated annual fuel tax exemption for school districts of $3,061,650.

In response to a similar proposal from this year (SB 421), officials from the **Parkway School District** assumed this proposal would result in a savings of approximately $50,000 per year to their organization. No other school districts responded to our request for information.

Oversight assumes the school districts would realize the full savings from the proposal, and that administrative costs to the state and the school districts would be minimal.

Senate Amendment 29;

Officials from the **Office of the State Treasurer** assume this amendment would not fiscally

ASSUMPTION (continued)

impact their agency.

Officials from the **Department of Agriculture (MDA)** assume this proposal will give an incentive to Missouri's cattle industry to retain ownership and background and/or finish cattle in this state. The growth in the cattle industry as a result of this legislation should have a positive economic impact on the state.

We estimate that about 1.65 million head of beef animals are marketed each year in Missouri. The legislation does require that the "qualifying beef animals" be raised and backgrounded or finished in the state. A generally accepted definition of backgrounding is that the calves would be weaned for a minimum of 45 days. Backgrounding could include those weaned up to an estimated 800 lbs which would then go to a feedlot for finishing.

Assuming:
45% of the 1.65 million are currently sold as weaned calves and also assuming that with this program 20% of those would be backgrounded and would put on an additional 300 lbs. (1.65m x 45% x 20% x 300lbs x $.10 = $4,455,000).

50% of the 1.65 million are currently sold as weaned calves and also assuming that with this program 5% of those backgrounded calves would be finished and would put on an additional 400 lbs (1.65m x 50% x 5% x 400lbs x $.10 = $1,650,000).

Total tax credit cost $6,105,000.

This tax credit is for tax years beginning on or after January 1, 2009. Therefore, **Oversight** assumes the earliest a credit could be utilized on a tax return would be in fiscal year 2010. Oversight will reflect the potential loss of income from this amendment of up to $10 million, which is the annual cap on the program.

Official from the **Office of Administration - Budget and Planning** state the proposal creates the Qualified Beef Tax Credit which allows credits for qualifying sales of qualifying beef animals. The annual cap for the program is set at $10 million therefore this proposal could lower general and state revenue by that amount.

Officials from the **Department of Revenue** assume Personal Tax would require 1 Tax Processing Technician I for every 6,000 credits claimed for verification/processing purposes.

ASSUMPTION (continued)

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.

In summary, the **Department of Economic Development** 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. DED also assumes the need for one person to administer the Small Business Entrepreneurial Growth Act and one to administer the Small Business Tax Credit plus $5,000 in expenses for the Small Business Tax Credit review committee. While the over all cost is shown as unknown, the administrative costs would be in the $500,000 range.

In summary, the **Department of Revenue** assumes the need for 14 full time equivalents plus 8 temporary employees. DOR assumes the cost of these additional FTE to be roughly $650,000 per year.

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.

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
Savings - Neighborhood Assistance Program tax credit (Amendment 19)	$0	$0 to $100,000	$0 to $100,000
Costs - Department of Economic Development (DED)			
Personal Service	($231,070)	($285,603)	($285,603)
Fringe Benefits	($104,582)	($129,264)	($129,264)
Expense and Equipment	($125,091)	($104,229)	($107,356)
Total Costs - DED	($460,743)	($519,096)	($522,223)
FTE Change - DED	4 FTE	4 FTE	4 FTE
Costs - Department of Revenue			
Personal Service (14 FTE)	($285,996)	($351,774)	($360,569)
Temporary Employees (2 temps)	($53,300)	($65,559)	($67,198)
Fringe Benefits	($149,494)	($183,877)	($188,474)
Expense and Equipment	($109,253)	($40,419)	($41,632)
Total Costs - DOR	($598,043)	($641,629)	($657,873)
FTE Change - DOR	14 FTE	14 FTE	14 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
Cost - Department of Agriculture			
Personal Service (1 FTE)	($27,467)	($33,949)	($34,967)
Fringe Benefits	($12,432)	($15,365)	($15,826)
Expense and Equipment	($7,801)	($8,302)	($8,549)
Total Costs - AGR	($47,700)	($57,616)	($59,342)
FTE Change for AGR	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 new tax credit for investment in Missouri Small Businesses (Section 135.403 - Amendment 25)	$0 to ($10,000,000)	$0 to ($10,000,000)	$0 to ($10,000,000)
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 - DED tax credit for contribution to organization for the preservation of Missouri's Civil War sites (Section 135.571 Amendment 19)	$0	$0 to ($100,000)	$0 to $100,000
Loss - Dept. of Social Services Increase the Maternity Homes tax credit from $2 million to $3 million (Section 135.600 - Amendment 18)	$0 to ($1,000,000)	$0 to ($1,000,000)	$0 to ($1,000,000)
Loss - Qualified Beef Tax Credit (Section 135.660 - Amendment 29)	$0	$0	$0 to ($10,000,000)
Loss - tax credit for qualified equity investments (Section 135.662)	$0	$0	$0 to ($15,000,000)
Loss - tax credit for installation of alternative fuel vehicle refueling station (Section 135.710 in Amendment 5)	$0	$0 to ($3,000,000)	$0 to ($2,000,000)
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 In Corporate Income Tax resulting from changes to Nexus (Sections 143.006, 144.605 & 147.010)	(Unknown)	(Unknown)	(Unknown)
Loss - DOR Income tax deduction for purchase of qualified hybrid vehicle (Section 143.114 in Amendment 5)	$0	(Could exceed $341,077)	(Could exceed $341,077)
Loss - DOR Tax credit for E-85 fuel (Section 143.128 in Amendment 5)	$0	$0 to ($500,000)	$0 to ($500,000)
Loss - DOR Sales tax exemption expanded by 'rebuttable presumption' language (144.030.2 (12) Amendment 5)	(Unknown)	(Unknown)	(Unknown)
Loss - DOR Sales tax exemption for property and utilities used in development of agricultural, biotechnology, and plant genomics products (Amendment 2)	(Unknown)	(Unknown)	(Unknown)
Loss - DOR Sales tax exemption for energy used in manufacturing (Section 144.054)	(Unknown)	(Unknown)	(Unknown)
Loss - DOR Sales tax exemption in FY 2008 for new motor vehicles designed to operate on E-85 (Section 144.061 in Amend. 5)	($426,215)	$0	$0
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)

Loss - DED			
Small Business and Entrepreneurial Growth Act - retention of withholding tax (Section 620.1892 - Amendment 11)	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	**(More than $1,582,294) - could exceed ($48,582,294)**	**(More than $1,616,665) - could exceed ($73,113,665)**	**(More than $1,636,388) - could exceed ($97,136,388)**
Estimated Net FTE Change for General Revenue Fund	20 FTE	20 FTE	20 FTE

Note: 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			
Various sales tax exemptions	(Unknown)	(Unknown)	(Unknown)
Loss - School District Trust Fund			
Sales tax exemption on E85 vehicles (Amendment 5)	($568,286)	$0	$0
Loss - Conservation Fund			
Various sales tax exemptions	(Unknown)	(Unknown)	(Unknown)
Loss - Conservation Fund			
Sales tax exemption on E85 vehicles (Amendment 5)	($142,072)	$0	$0
Loss - Parks and Soil Fund			
Various sales tax exemptions	(Unknown)	(Unknown)	(Unknown)

Loss - Parks and Soil Fund Sales tax exemption on E85 vehicles (Amendment 5)	($113,657)	$0	$0
ESTIMATED NET EFFECT ON ALL OTHER STATE FUNDS	**(More than $824,015)**	**(Unknown)**	**(Unknown)**

ROAD FUND

Loss - Department of Transportation Motor Fuel Tax (Section 142.817)	($1,032,000)	($1,238,000)	($1,238,000)
Loss - DOR Sales tax exemption for railroad rolling stock (Section 144.030.2 (11)	(Unknown)	(Unknown)	(Unknown)
Loss - DOR Sales tax exemption new diesel-powered motor vehicles with a gross vehicle rating not exceeding 8,500 lbs (144.030.2 (40) in Amendment 5)	(Unknown)	(Unknown)	(Unknown)
Loss - DOR Sales tax exemption in FY 2008 for new motor vehicles designed to operate on E-85 (Section 144.061 in Amend. 5)	($2,983,502)	$0	$0
Loss - MoDOT Motor Fuel tax exemption for school bus operation (Amendment 28)	($1,887,000)	($2,287,000)	($2,310,000)
ESTIMATED NET EFFECT TO THE ROAD FUND	**(More than $5,902,502)**	**(More than $3,525,000)**	**(More than $3,548,000)**

FISCAL IMPACT - Local Government	FY 2008 (10 Mo.)	FY 2009	FY 2010
LOCAL POLITICAL SUBDIVISIONS			
Savings - School Districts			
Motor Fuel tax exemption for school districts (Amendment 28)	$2,577,000	$3,122,000	$3,154,000
Loss - Cities			
Motor Fuel Tax (Section 142.817)	($211,000)	($254,000)	($254,000)
Loss - Cities - Motor fuel tax exemption for school bus operation (Amendment 28)	($387,000)	($468,000)	($473,000)
Loss - Counties			
Motor Fuel Tax (Section 142.817)	($166,000)	($199,000)	($199,000)
Loss - Counties - Motor fuel tax exemption for school bus operation (Amendment 28)	($303,000)	($367,000)	($371,000)
Loss - Local Governments			
Sales tax exemption (Section 144.054)	(Unknown)	(Unknown)	(Unknown)
Loss - Cities and Counties			
Sales tax exemption on E85 vehicles (Amendment 5)	($568,286)	$0	$0
ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS	**$941,714 to (Unknown)**	**$1,834,000 to (Unknown)**	**$1,857,000 to (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

This proposal creates new economic development programs and modifies provisions of the Film Production Tax Credit Program, the Quality Jobs Program, the Enhanced Enterprise Zone Program, and the New Jobs Training Program.

DISTRESSED AREAS LAND ASSEMBLAGE TAX CREDIT PROGRAM
This act 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 & 135.562
The act 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.
If any portion of the modification was claimed as a deduction on the taxpayer's federal income tax, then the amount of the tax credit shall be reduced by 1/3. The credit applies to tax years beginning January 1, 2008, and expires December 31, 2013. The modifications to these sections are similar to Senate Bill 877 (2006).

NEW MARKETS TAX CREDIT PROGRAM
This act 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 amount of investments in any one qualified low-income community business which may be used for calculating the amount of tax credits is limited to ten million for such business including investments in any affiliates of such business. 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

FISCAL DESCRIPTION (continued)

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 to the taxpayer's five subsequent tax years. The department of economic development must limit the amount of investments to a level necessary to limit tax credit utilization to no more than fifteen million dollars per fiscal year without regard to the potential for taxpayers carrying forward credits to later years. The act contains provisions allowing the Department of Economic Development to recapture tax credits issued under the act in certain situations.

This section contains a sunset provision and a reauthorization procedure for fiscal years following fiscal year 2010. For fiscal years following fiscal year 2010, annual reauthorization must be made in the form of a concurrent resolution clearly describing the amount of tax credits which will be made available for the next fiscal year, unless provisions of the Missouri Sunset act require reauthorization by general law. The sunset date and annual reauthorization requirement shall not preclude a taxpayer who makes a qualified equity investment prior to the such date from claiming credits issued under the act.

FILM PRODUCTION TAX CREDIT PROGRAM
The act 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 dollars. The amount of the tax credit is reduced, beginning January 1, 2008, from fifty percent to thirty-five percent of the amount of qualifying expenses. The provisions of this section will automatically sunset in six years if not re-authorized. This section is similar to House Bill 360 (2007).

FISCAL DESCRIPTION (continued)

ENHANCED ENTERPRISE ZONE PROGRAM
The act:

1. Increases the cap on the amount of tax credits that can be issued in a calendar year for the program from seven million dollars per year to twenty-five million dollars per year;
2. Modifies the definition of an "employee" to a person employed by the enhanced business enterprise that is scheduled to work an average of at least 1,000 hours per year. Health insurance must be offered to employees at all times and must be partially paid by the employer. Currently, the definition of an "employee" includes full-time, part-time, and seasonal employees;
3. Adds educational services, religious organizations, and public administration to the list of entities which are prohibited from being enhanced business enterprises. However, headquarters or administrative offices which would otherwise be excluded may qualify for benefits if the offices serve a multi-state territory. Currently, utilities regulated by the Missouri Public Service Commission are excluded from being an enhanced business enterprise. The act changes this to public utilities with a NAICS code 221, including water and sewer services;
4. Allows speculative industrial or warehouse buildings constructed by a public entity, or a private entity if the land is leased by a public entity, to be exempt from ad valorem taxes, upon the approval of the governing authority. If the speculative building is owned by a private entity, the exemption cannot exceed two years. If it is owned or leased by a public entity, the exemption cannot exceed five years. Currently, only enhanced business enterprises can be exempt from these taxes; and
5. Requires the department to verify through the Department of Revenue that the tax credit applicant does not owe any delinquent taxes, interest, or penalties and to verify through the Department of Insurance, Financial Institutions, and Professional Registration that the applicant does not owe any delinquent insurance taxes prior to issuing any tax credits. The amount of tax credits issued will be reduced by any tax delinquency.

MOTOR FUEL TAX EXEMPTIONS
Under this act, motor fuel used to operate public mass transportation service by a city transit authority, a city utilities board, or an interstate transportation authority, as such terms are defined in section 94.600, RSMo, a city, or an agency receiving funding from either the Federal Transit Administration's urban or nonurban formula transit programs is exempt from the state's motor fuel tax.

SALES TAX EXEMPTIONS FOR MANUFACTURING
This act exempts purchases of certain energies, gases, utilities, chemicals, machinery and equipment used in the manufacture or processing of products including those consumed in the processing of recovered materials from state and local sales and use taxation.

FISCAL DESCRIPTION (continued)

NEW JOBS TRAINING PROGRAM
The act:
1. Allows community college districts to sell certificates until July 1, 2018. Currently, they cannot sell certificates after July 1, 2008; and
2. Extends the program until July 1, 2028. Currently, it will expire on July 1, 2018.

SECTION 178.715
Residents of certain counties in the southeast part of the state are authorized to create a taxing district for the purposes of creating a vocational school in that part of the state.

QUALITY JOBS PROGRAM
The act:
1. Increases the cap on the amount of tax credits that can be issued in a calendar year for the program from twelve million dollars to thirty million dollars;
2. Allows tax credits to offset taxes due from financial institutions under Chapter 148, RSMo. Currently, the credits can only be used to offset state income taxes imposed by Chapter 143;
3. Modifies the definition of "withholding tax" to a computation using a schedule determined by the Department of Economic Development based on average wages. Currently, the definition is the state tax imposed by Sections 143.191 - 143.265;
4. Allows the calendar year's maximum amount of quality jobs tax credits issued to a qualifying company that participates in both the Quality Jobs Program and the New Job Training Program to be increased by an amount equivalent to the withholding tax retained by that company under the New Job Training Program if the combined benefits do not exceed the projected state benefits of the project;
5. Requires that if the calendar year's annual maximum amount of quality jobs tax credits issued to any qualified company is increased by $1 million, the number of new jobs must exceed 500. Currently, this increase in tax credits can occur by receiving the approval of the department and the Quality Jobs Advisory Task Force;
6. Specifies the method in which the county average wage will be calculated when a qualified company relocates employees from one county to another;
7. Revises the definition of "full-time employee" from an employee who works an average of 35 hours per week to an employee of the qualified company that is scheduled to work an average of 35 hours per week, but leaves the remaining requirements of the definition unchanged;
8. Changes the calculation of "new direct local revenue" so that local earnings taxes are excluded;
9. Specifies that no jobs created before the notice of intent will be considered new jobs;

FISCAL DESCRIPTION (continued)

10. Specifies the method in which new payroll will be calculated;
11. Adds educational services, religious organizations, public administration, and utilities regardless of whether or not they are regulated by the Missouri Public Service Commission to the list of entities which are prohibited from being qualified companies. However, headquarters or administrative offices which would otherwise be excluded may qualify for benefits if the offices serve a multi-state territory;
12. Allows qualified companies to retain withholding taxes once the minimum number of new jobs has been attained and the county average wage has been exceeded. A qualified company will not receive tax credits if in its annual report, the average wage is below the county average wage, the company has not maintained the required employee insurance, or if the number of new jobs is below the minimum;
13. Creates a new tax credit within the program for small business job retention and flood survivors relief. The amount of the tax credit will be equal to the amount of withholding tax generated by the full-time jobs retained over a period of three years. The calendar year maximum amount of tax credits which may be issued for small business retention and flood survivor relief is two hundred and fifty thousand dollars, but such amount may be increased up to five hundred thousand dollars if proposed by the department of economic development. No tax credits for small business job retention and flood survivor relief may be issued after August 30, 2010;
14. Requires the department of economic development to give preference, in providing benefits under the quality jobs act, to qualified companies and projects targeted at areas of the state which have recently been classified as disaster areas by the federal government; and
15. Requires the department to verify through the Department of Revenue that the tax credit applicant does not owe any delinquent taxes, interest, or penalties and to verify through the Department of Insurance, Financial Institutions, and Professional Registration that the applicant does not owe any delinquent insurance taxes prior to issuing any tax credits. The amount of tax credits issued will be reduced by any tax delinquency.

DETERMINATION OF NEXUS FOR TAXATION PURPOSES
The act modifies provisions of income, sales and use, and corporate franchise tax law to exclude certain business contacts and activities, conducted within the state, from consideration in the determination of whether nexus exists for tax purposes.

MODIFICATIONS TO TAX CREDIT DEFINITIONS & TRANSFERABILITY PROVISIONS
The act modifies the definitions of the terms "person" and "taxpayer" with regard to provisions authorizing tax credit programs within chapters 32, 100, 135, 143, 173, 208, 348 & 620 RSMo, so as to include charitable organizations which are exempt from federal income tax. The act further amends the tax credit provisions contained in such chapters so as to allow for the full

FISCAL DESCRIPTION (continued)

transferability of the tax credits authorized therein.

SENATE AMENDMENT 2 creates a sales tax exemption for utilities purchased for and tangible personal property purchased for use or consumption directly or exclusively in the research and development of agricultural, biotechnology and plant genomics products.

SENATE AMENDMENT 4 requires the director of the Department of Revenue to calculate the levels of appropriation necessary to set the homestead exemption limit anywhere between one hundredth of one percent and five percent for reassessment years and one hundredth of one percent and two and a half percent for non-reassessment years. In doing so, the General Assembly could appropriate sufficient funds to offset any increase in property tax liability experienced by eligible taxpayers in a given year.

SENATE AMENDMENT 5 creates an income tax credit for the costs of constructing a qualified alternative fuel vehicle refueling property. The tax credit shall not exceed the lesser of twenty thousand dollars or twenty percent of the costs directly associated with the purchase and installation of any alternative fuel storage and dispensing equipment. The cumulative amount of credits which may be claimed shall not exceed three million dollars for taxable year 2008. For taxable year 2009, the cumulative amount of tax credits which may be claimed is reduced to two million dollars, and for taxable year 2010, the amount is further reduced to one million dollars. The tax credit is non-refundable, but may be carried forward for two subsequent tax years. The tax credit is fully transferable. The act contains a recapture provision for refueling properties which cease sales of alternative fuel. The provisions of the act creating the tax credit program will automatically expire six years from the effective date of the act if not re-authorized.

The amendment creates an income tax deduction for tax year 2008, for a taxpayer's purchase of qualified hybrid vehicles. The deduction will equal the lesser of one thousand five hundred dollars or ten percent of the purchase price of the vehicle. The tax deduction must be taken in the year in which the purchase is made.

The amendment also creates a tax credit for the purchase of E-85 gasoline. The tax credit will be equal to: twenty five cents per gallon for 2008; twenty cents per gallon for 2009 and 2010; and fifteen cents per gallon for 2011 and each subsequent year. The tax credit must be for at least fifty dollars, but may not exceed five hundred dollars per taxpayer per year. The aggregate amount of tax credits which may be redeemed by all taxpayers in any given year shall not exceed five hundred thousand dollars. The tax credit is non-refundable, but may be carried forward three years. The provisions allowing for the tax credit for purchases E-85 gasoline will sunset six years from the effective date of the act unless re-authorized.

FISCAL DESCRIPTION (continued)

The amendment also creates a sales tax exemption for fiscal year 2008, for purchases of automobiles designed to operate on eighty-five percent ethanol fuel.

Under current law, in order for a manufacturer to receive an exemption from sales tax for electrical energy used in the primary manufacture of a product, the manufacturer must prove that the total cost of electricity used exceeds ten percent of the total cost of production or that the raw materials used in the primary manufacture of a product contain at least twenty-five percent recovered materials. This amendment creates a rebuttable presumption that the raw materials used in the primary manufacture of automobiles contain at least twenty-five percent recovered materials.

SENATE AMENDMENT 10 modifies provisions of the Missouri Quality Jobs Act allowing qualified companies to receive tax credits for providing tuition reimbursement programs to certain employees. The tax credit provided in this act is a non-refundable, fully transferrable income tax credit. To the extent that a taxpayer's Missouri income tax liability is exceeded by the amount of tax credits issued in a tax year for tuition reimbursement, the remaining tax credits may be carried forward five years until completely claimed.

The tuition reimbursement tax credit is an income tax credit equal to fifty percent of expenses incurred by a qualified company in providing tuition reimbursement to eligible employees, not to exceed five thousand dollars per eligible employee per year. The act prohibits a qualified company from receiving more than twenty-five thousand dollars in tuition reimbursement tax credits in any one tax year. The total number of tuition reimbursement tax credits issued annually shall not exceed two hundred and fifty thousand dollars.

SENATE AMENDMENT 11 establishes the Small Business and Entrepreneurial Growth Act for small business employers who expand their business by increasing the number of jobs and meeting certain qualifications. Beginning January 1, 2008, a qualified employer can retain the Missouri withholding tax from the salaries of the newly created jobs for one year; or if the employer pays more than 50% of the cost of the premiums for health insurance for all employees, the withholding tax can be retained for two years.

SENATE AMENDMENT 18 raises the annual cap on the Maternity Homes tax credit program from $2 million to $3 million.

SENATE AMENDMENT 19 creates an income tax credit in an amount equal to fifty percent of a contribution made by a taxpayer to an eligible organization for the preservation of Missouri's civil war sites. The tax credit has an aggregate annual cap of one hundred thousand dollars and a per taxpayer annual cap of twenty five thousand dollars.

FISCAL DESCRIPTION (continued)

To the extent that tax credits remain unissued for the Neighborhood Assistance program, the first one hundred thousand dollars of such remaining tax credits shall be made available for issuance based upon contributions made to eligible organizations for the preservation of Missouri's civil war sites. The Department of Economic Development shall certify organizations which qualify under the program. Upon certification, the Department of Economic Development must notify the Department of Revenue as to an organization's certification status.

SENATE AMENDMENT 24 revises the definition of "community-based organizations" to include any nonprofit corporations formed under Chapter 355, RSMo, for which the Department of Economic Development can approve to implement the Family Development Account Program.

Currently, no more than 20% of the funds in the reserve fund account may be used for the administrative costs of the program during its first two years and 15% in subsequent years. The bill reduces the amount to 15% for the first two years and 10% for subsequent years.

SENATE AMENDMENT 25 changes the laws regarding the small business investment tax credit. In its main provisions, the bill:

(1) Reduces the amount of the tax credit for a qualified investment in a small business from 40% to 30% of the investment, unless the small business is located in a distressed community, in which case the tax credit is reduced from 60% to 40%. A tax credit equal to 40% of an investment made in a small business located in a rural area is allowed. Tax credits will only be issued on investments up to $100,000;

(2) Removes the 50% tax credit for investment in a community bank or community development corporation;

(3) Requires that $10 million in tax credits be available each fiscal year for qualified investments in small businesses, regardless of the location of the business. Currently, the total amount of tax credits available for qualified investments in Missouri small businesses cannot exceed $13 million with $4 million reserved for distressed communities;

(4) Removes the requirement that $500,000 be available for tax credits for qualified investments in Missouri small businesses, community banks, or community development corporations from the Neighborhood Assistance Program; and

(5) Prohibits the Department of Economic Development from issuing certificates without the approval of the Small Business Tax Credit Review Committee, which must review and

FISCAL DESCRIPTION (continued)

determine the eligibility of all tax credit applications.

SENATE AMENDMENT 28 exempts fuel sold to school districts from the motor fuel tax when the bus is driven to transport students for educational purposes.

SENATE AMENDMENT 29 creates a non-refundable income and corporate franchise tax credit for sales of qualifying beef animals based upon such animal's weight at the time of first sale. The tax credit shall be equal to ten cents per pound above four hundred fifty pounds for the first sale, and ten cents per pound above the weight of the qualifying beef animal at the time of the first qualifying sale or four hundred fifty pounds, which ever is greater, for a subsequent sale. A qualifying beef animal must be certified by the agriculture and small business development authority and be born in this state after August 28, 2008, and raised or finished in this state.

The tax credit must be claimed in the year in which the qualifying sale is made. Qualifying beef tax credits are fully transferrable by notarized endorsement. To the extent the amount of tax credits for qualifying beef sales exceeds a taxpayer's corporate franchise or income tax liability, such remainder may be carried forward five years or back three years. The tax credit has an annual cap of ten million dollars and the cumulative amount of tax credits which may be issued under the act is limited to thirty million dollars.

In order to claim the tax credit authorized under the act, a taxpayer must submit an application to the agriculture and small business development authority at the end of each calendar year. If the taxpayer and qualified sale meet all of the requirements, the authority will then issue a tax credit certificate. All taxpayer information required in the application will be confidential, and may only be shared with state and federal animal health officials.

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
Department of Higher Education
Department of Transportation
Department of Labor and Industrial Relations

SOURCES OF INFORMATION (continued)

Department of Natural Resources
State Tax Commission
Department of Conservation
Office of the State Treasurer
Department of Public Safety
Office of the State Courts Administrator
Department of Agriculture
Department of Elementary and Secondary Education
City of Kansas City

NOT RESPONDING: Department of Social Services

Mickey Wilson

Mickey Wilson, CPA
Director
April 16, 2007