

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1962-01
Bill No.: HB 804
Subject: Economic Development; Revenue Department; Taxation and Revenue
Type: Original
Date: February 13, 2007

Bill Summary: This proposal changes provisions relating to the Missouri Small Business Investment tax credit.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
General Revenue	\$0 to (\$10,000,000)	\$0 to (\$10,000,000)	\$0 to (\$10,000,000)
Total Estimated Net Effect on General Revenue Fund*	\$0 to (\$10,000,000)	\$0 to (\$10,000,000)	\$0 to (\$10,000,000)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Total Estimated Net Effect on <u>Other</u> State Funds*	\$0	\$0	\$0

* 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 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Total Estimated Net Effect on FTE	0	0	0

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*	\$0	\$0	\$0

*** 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 this legislation changes the laws regarding the small business tax credit program including capping the amount of tax credits issued at \$10 million per fiscal year. According to the Department of Economic Development's Tax Credit Analysis information, the current program has exhausted its available allocation. Therefore, BAP assumes the loss to general and total state revenues could be \$10 million per fiscal year. This amount may vary from year to year since the redemption amount is not capped.

Officials from the **Department of Economic Development (DED)** states the bill will allow DED to issue \$10 million in Small Business Development Tax Credits. DED projects no immediate fiscal or administrative impact.

DED assumes the proposal will result in an unknown positive impact on General Revenue. The tax credits will be used to bring additional business into Missouri from outside the state. DED anticipates the credits will create a positive but unknown impact on GR through direct and indirect economic benefits created by their issuance.

Officials from the **Department of Revenue** assume this proposal will not fiscally impact their agency.

The proposal 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.

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. Therefore, under this proposal, if \$10,000,000 of credits are issued, Oversight would assume \$8,300,000 (83%) of credits to be redeemed, reducing Total State Revenues.

ASSUMPTION (continued)

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.

Oversight has reflected the potential fiscal impact of this proposal impacting the General Revenue Fund. The credits could be redeemed against insurance premium tax liabilities (Chapter 148), thereby impacting the County Foreign Insurance Fund and the County Foreign 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.

This proposal could reduce Total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2008 (10 Mo.)	FY 2009	FY 2010
GENERAL REVENUE			
<u>Loss</u> - tax credit for Missouri Small Business Investments.	\$0 to <u>(\$10,000,000)</u>	\$0 to <u>(\$10,000,000)</u>	\$0 to <u>(\$10,000,000)</u>
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	\$0 to <u>(\$10,000,000)</u>	\$0 to <u>(\$10,000,000)</u>	\$0 to <u>(\$10,000,000)</u>

Note: This 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.

<u>FISCAL IMPACT - Local Government</u>	FY 2008 (10 Mo.)	FY 2009	FY 2010
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

Small businesses that qualify for this tax credit could be fiscally impacted from this proposal.

FISCAL DESCRIPTION

This proposal changes the laws regarding the small business investment tax credit. In its main provisions, the bill:

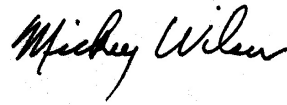
- (1) Reduces the amount of the tax credit for a qualified investment in a small business from 40% to 30% of the investment, unless the small business is located in a distressed community, in which case the tax credit is reduced from 60% to 40%. A tax credit equal to 40% of an investment made in a small 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 qualify all tax credit applications.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

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SOURCES OF INFORMATION

Department of Economic Development
Department of Revenue
Office of Administration
Budget and Planning

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, flowing style.

Mickey Wilson, CPA
Director
February 13, 2007