COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3725-01
Bill No.: HB 1425
Subject: Agriculture and Animals; Agriculture Department; Tax Credits
Type: Original
Date: January 11, 2008

Bill Summary: This proposal increases the cap on the aggregate of certain agricultural tax credits and extends the sunset of the program from 2010 to 2016.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
General Revenue	$0 to ($6,000,000)	$0 to ($6,000,000)	$0 to ($6,000,000)
Total Estimated Net Effect on General Revenue Fund*	**$0 to ($6,000,000)**	**$0 to ($6,000,000)**	**$0 to ($6,000,000)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Total Estimated Net Effect on Other 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 2009	FY 2010	FY 2011
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
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 2009	FY 2010	FY 2011
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 **Department of Revenue** assume this proposal will not fiscally impact their agency.

Officials from the **Office of Administration - Budget and Planning** state the proposal increases the cap on agricultural tax credit programs from $6 million to $12 million. Therefore, general and total state revenues may be reduced by $6 million annually.

Officials from the **Department of Agriculture (AGR)** assume the proposal would result in a loss of revenue of $6 million in Fiscal Years 2009 and 2010 and a loss of $12 million in FY 2011 from the increase in tax credits each year as well as the sunset extension. AGR assumes they can administer the increase in tax credits with current staff.

Officials from the **Department of Insurance, Financial Institutions and Professional Registration (DIFP)** state the legislation increases the aggregate of tax credits issued from six to twelve (11 million for New Generation and 1 million for Agricultural Product Utilization) million each fiscal year, doubling the amount of tax credits issued which would result in the possible reduction of premium tax revenue. It also extends the tax credit until 2016.

DIFP states it is unknown how many insurance companies will choose to participate in this program and take advantage of the tax credits. Premium 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 tax credits each year.

Oversight assumes with the current expiration date of December 31, 2010, companies will be able to utilize tax credits earned in calendar year 2010, in a return filed in fiscal year 2011. Therefore, the first fiscal year in which the state would realize a savings from the expiration of the programs outlined in Sections 348.430 to 348.436, RSMo, would be fiscal year 2012. Therefore, although extending the sunset date of these programs from 2010 to 2016, would have a direct fiscal impact on the state of up to $6 million (or $12 million with new annual limits), Oversight assumes this would be realized outside the scope of this fiscal note.

ASSUMPTION (continued)

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 118 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 98.5 percent of tax credits issued. Therefore, under this proposal, if $6,000,000 of credits are issued, Oversight would assume $0 to $5,910,000 (98.5%) of credits to be redeemed, reducing Total State Revenues

Oversight will range the fiscal impact of the two programs from $0 (no additional tax credits will be issued) to the change in annual limits. 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 2009 (10 Mo.)	FY 2010	FY 2011
GENERAL REVENUE			
Loss - Department of Agriculture			
Increase of annual cap of agricultural tax credits from $6 million to $12 million	$0 to ($6,000,000)	$0 to ($6,000,000)	$0 to ($6,000,000)
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	**$0 to ($6,000,000)**	**$0 to ($6,000,000)**	**$0 to ($6,000,000)**

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.

FISCAL IMPACT - Local Government	FY 2009 (10 Mo.)	FY 2010	FY 2011
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

This proposal will positively impact small businesses that qualify for these credits.

FISCAL DESCRIPTION

Currently, agricultural tax credits are not to exceed $6 million in the aggregate in any fiscal year. This bill increases the maximum amount to $12 million.

The Missouri Agricultural and Small Business Development Authority is allowed to issue up to $1 million in agricultural product utilization tax credits in any fiscal year to individuals contributing cash funds to the authority. The funds are to be used for financial or technical assistance to rural agricultural business concepts approved by the authority. Eleven million dollars of total tax credits, increased from $6 million, are authorized annually for the New Generation Cooperative Incentive Tax Credit Program.

The bill extends from December 31, 2010, to December 31, 2016, the expiration date for the authority to issue agricultural tax credits.

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 Insurance, Financial Institutions and Professional Registration
Department of Agriculture
Office of Administration - Budget and Planning
Department of Revenue

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