

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4399-03
Bill No.: HB 2167
Subject: Agriculture and Animals; Revenue Department; Tax Credits; Taxation and
Revenue - Income
Type: Original
Date: March 5, 2008

Bill Summary: This proposal provides a tax credit for the purchase of Missouri-grown food products.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
General Revenue	(Up to \$5,234,814)	(Up to \$5,243,548)	(Up to \$5,250,855)
Total Estimated Net Effect on General Revenue Fund	(Up to \$5,234,814)	(Up to \$5,243,548)	(Up to \$5,250,855)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

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 <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
General Revenue	Up to 7 FTE	Up to 7 FTE	Up to 7 FTE
Total Estimated Net Effect on FTE	Up to 7 FTE	Up to 7 FTE	Up to 7 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 2009	FY 2010	FY 2011
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Agriculture** state the Department of Revenue is responsible for the legislation and therefore assume the proposal will not fiscally impact their agency.

Officials from the **Office of Administration - Budget and Planning** state the proposal creates a tax credit for purchases of Missouri food products. The program is capped at \$5 million annually, but is refundable. This proposal will reduce general and total state revenues up to the above amount.

Officials from the **Department of Revenue (DOR)** state their Personal Tax Section would require one Tax Processing Technician I for every 4,000 credits claimed. Also, the Customer Assistance Section would require:

- 1 Tax Collection Technician I for every 15,000 calls a year on the income tax phone line;
- 1 Tax Collection Technician I for every 24,000 calls a year to the delinquency phone line;
- 3 Tax Processing Technician I for every additional 4,800 contacts in the field offices (Taxation anticipates most customers will contact the department via phone, therefore, will only request 1 Full Time Employee for each of the larger field office including Kansas City, St. Louis, and Springfield)

DOR states their Corporate Tax Section would require one Tax Processing Technician I for verification and correspondence.

In summary, DOR assumes the need for seven new FTE (two Tax Collections Tech 1s and five Tax Processing Tech 1s - each at \$24,636 annually), plus fringe benefits, plus expense and equipment would total roughly \$275,000 annually.

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

Office of Administration Information Technology (ITSD DOR) estimates the IT portion of this request can be accomplished within existing resources; however, if priorities shift, additional FTE/overtime would be needed to implement. Office of Administration Information

ASSUMPTION (continued)

Technology (ITSD DOR) estimates that this legislation could be implemented utilizing 1 existing CIT III for 1 month for modifications to MINITS and 3 existing CIT III for 1 month for modifications to corporate. The estimated cost is \$16,744.

Oversight assumes the DOR will not require seven additional FTE to implement this program, but is unsure how many FTE will be needed. Therefore, Oversight will range the administrative impact 'up to' the estimated number of FTE provided by DOR. **Oversight** has, for fiscal note purposes only, changed the starting salary for DOR's FTEs to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees and policy of the Oversight Subcommittee of the Joint Committee on Legislative Research.

Officials from the **Office of the Secretary of State (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 SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the SOS for Administrative Rules is less than \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, 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.

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 \$5,000,000 of credits are issued, Oversight would assume \$4,925,000 of credits to be redeemed, reducing Total State Revenues

Oversight will range the fiscal impact of the program from \$0 (no additional tax credits will be issued) to the annual limit. 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.

ASSUMPTION (continued)

This proposal will reduce Total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2009 (10 Mo.)	FY 2010	FY 2011
GENERAL REVENUE			
<u>Costs - Department of Revenue</u>			
Personal Service (up to 7 FTE)	(Up to \$132,304)	(Up to \$163,527)	(Up to \$168,433)
Fringe Benefits	(Up to \$58,505)	(Up to \$72,312)	(Up to \$74,481)
Expenses and Equipment	<u>(Up to \$44,005)</u>	<u>(Up to \$7,709)</u>	<u>(Up to \$7,941)</u>
<u>Total Costs - DOR</u>	(Up to \$234,814)	(Up to \$243,548)	(Up to \$250,855)
FTE Change - DOR	Up to 7 FTE	Up to 7 FTE	Up to 7 FTE
<u>Loss - tax credit for the purchase of Missouri-grown food products</u>	\$0 to <u>(\$5,000,000)</u>	\$0 to <u>(\$5,000,000)</u>	\$0 to <u>(\$5,000,000)</u>
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	(Up to <u>\$5,234,814</u>)	(Up to <u>\$5,243,548</u>)	(Up to <u>\$5,250,855</u>)
Estimated Net FTE Change for General Revenue Fund	Up to 7 FTE	Up to 7 FTE	Up to 7 FTE
 <u>FISCAL IMPACT - Local Government</u>	 FY 2009 (10 Mo.)	 FY 2010	 FY 2011
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

Small businesses that qualify for the tax credit, as well as Missouri farmers may be fiscally impacted as a result of this proposal.

FISCAL DESCRIPTION

This proposal establishes the Promoting Missouri Food Products Act which authorizes, beginning January 1, 2008, a tax credit for the purchases of Missouri food products by any taxpayer owning a retail grocery store or similar establishment with sales of Missouri food products totaling at least 15% of his or her gross annual sales. The tax credit will be 10% of the purchase price paid to a Missouri farmer or producer for Missouri food products.

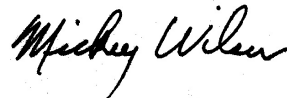
The cumulative amount of tax credits issued in one fiscal year cannot exceed \$5 million. If the amount of tax credits claimed in any one fiscal year exceeds \$5 million, the Director of the Department of Revenue will establish a procedure by which the cumulative amount of tax credits is equally apportioned among all qualifying taxpayers. The tax credit will be claimed when the qualifying taxpayer files a Missouri income tax return that is accompanied by certified documents and information required by the department director. The tax credit is nonrefundable and cannot be transferred, sold, or assigned.

The provision of the bill will expire December 31 six years from the effective date.

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

SOURCES OF INFORMATION

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



Mickey Wilson, CPA
Director
March 5, 2008