COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4764-01
Bill No.: HB 1981
Subject: Revenue Department; Tax Credits; Taxation and Revenue - Income
Type: Original
Date: February 26, 2008

Bill Summary: This proposal authorizes a tax credit equal to 100% of the state sales tax paid on any automobile assembled and purchased in Missouri.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
General Revenue	($8,737,599)	($8,738,734)	($8,739,760)
Total Estimated Net Effect on General Revenue Fund*	**($8,737,599)**	**($8,738,734)**	**($8,739,760)**

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
General Revenue	1 FTE	1 FTE	1 FTE
Total Estimated Net Effect on FTE	**1 FTE**	**1 FTE**	**1 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**

*** 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 proposal creates a tax credit equal to the sales tax paid on sales of new vehicles assembled and sold in Missouri. Data from the Department of Revenue indicate there were 11,979 new vehicles that were assembled in Missouri and sold by Missouri dealers during FY '06, accounting for $8,704,525 in state sales tax. In addition, there were 12,283 new ATV's sold by Missouri dealers accounting for $2,352,691 in state sales tax. DOR does not have information on how many of these units were assembled in Missouri. Therefore, BAP estimates that general and total state revenues may be reduced by $8.7 million to $10 million annually.

Officials from the **Department of Revenue (DOR)** state they would require one Tax Processing Technician I (at $24,636 annually) for every 4,000 credits claimed. The total cost of this FTE, plus fringe benefits and expense and equipment is estimated to be roughly $40,000 annually.

DOR also states due to the Statewide Information Technology Consolidation, their 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 that this legislation could be implemented utilizing 1 existing CIT III for 1 month at a rate of $4,186. 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.

Officials from the **Department of Insurance, Financial Institutions and Professional Registration (DIFP)** state it is unknown how many insurance companies will choose to participate in this program and take advantage of the tax credits. 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.

DIFP will require minimal contract computer programming to add this new tax credit to the

ASSUMPTION (continued)

premium tax database and can do so under existing appropriation. However, should multiple bills pass that would require additional updates to the premium tax database, DIFP may need to request more expense and equipment appropriation through the budget process.

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 assumes that no ATV's are assembled in Missouri and that none would qualify for the tax credit. Oversight has used BAP's estimate of revenue reductions from motor vehicles as the fiscal impact for that provision. Oversight assumes that sales of new motor vehicles manufactured in Missouri would be relatively stable over the date scope of this fiscal note. The fiscal impact of this proposal could increase, should sales of such vehicles markedly increase as result of this act; conversely, it could decrease, should one or more automakers cease manufacturing in Missouri. Oversight will assume a full year of qualifying purchase will be make in calendar year 2008, since the tax credit is for 'all taxable years beginning on or after January 1, 2008.'

Oversight has, for fiscal note purposes only, changed the starting salary for DOR's Tax Processing Tech I 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 and the policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. In addition, Oversight assumes that the relatively small number of additional staff can be located in existing office space.

Based upon BAP's estimate of 11,979 vehicles that would qualify for this program in 2006, Oversight assumes DOR may need up to 3 new FTE if their estimate of one FTE for every 4,000 tax credits processed is correct. However, Oversight will reflect DOR's estimate of 1 new FTE required.

This proposal could decrease Total State Revenue.

FISCAL IMPACT - State Government	FY 2009 (10 Mo.)	FY 2010	FY 2011
GENERAL REVENUE FUND			
Costs - Department of Revenue			
Personal Service (1 FTE)	($18,901)	($23,361)	($24,062)
Fringe Benefits	($8,358)	($10,330)	($10,640)
Expense and Equipment	($5,815)	($518)	($533)
Total Costs - DOR	($33,074)	($34,209)	($35,235)
FTE Change - DOR	1 FTE	1 FTE	1 FTE
Loss - Income Tax			
Qualifying vehicle tax credit	($8,704,525)	($8,704,525)	($8,704,525)
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	**($8,737,599)**	**($8,738,734)**	**($8,739,760)**
Estimated Net FTE Change for General Revenue Fund	1 FTE	1 FTE	1 FTE

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

Small businesses that purchase Missouri-made vehicles may qualify for the tax credit and be positively fiscally impacted as a result of this proposal.

FISCAL DESCRIPTION

Beginning January 1, 2008, this bill authorizes a tax credit equal to 100% of the state sales tax paid on any new motor vehicle assembled and purchased in Missouri on or after that date. The tax credit may be claimed against a taxpayer's income tax; corporate franchise tax; financial institutions tax; and bridge, express, and public utility companies tax. Any political entity may exempt these sales from the local sales tax by order or ordinance.

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

Mickey Wilson

Mickey Wilson, CPA
Director
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