HCS HB 2058 -- TAX INCENTIVES FOR BUSINESS DEVELOPMENT

SPONSOR: Richard (Pearce)

COMMITTEE ACTION: Voted "do pass" by the Special Committee on Job Creation and Economic Development by a vote of 12 to 0.

This substitute changes the laws regarding tax incentives for business development.

VARIOUS TAX CREDIT PROGRAMS

The substitute:

(1) Increases the annual cap on the amount of tax credits the Department of Economic Development may authorize for the Enhanced Enterprise Zone Program from $14 million to $24 million;

(2) Increases the fiscal year cap for economic development tax credits that are approved as part of the Neighborhood Assistance Program from $4 million to $6 million;

(3) Allows the Missouri Technology Corporation to authorize up to $5 million in tax credits per year to encourage equity investment in technology-based early stage Missouri companies, commonly referred to as angel investments. Investors who contribute the first $500,000 in equity investment to a qualified Missouri business may be issued a tax credit equal to 30% of the investment or 40% if the qualified business is in a rural area or distressed community. An investor can receive a credit of up to $50,000 for an investment in a single qualified business and up to $100,000 for investments in more than one qualified business per year. Credits can be carried forward for up to three years or sold;

(4) Increases the aggregate cap on the amount of tax credits the department may authorize for the Small Business Incubators Program from $500,000 to $2 million; and

(5) Specifies that all demolition activities are part of remediation and allows remediation tax credits to include up to 100% of demolition costs that are not directly part of the remediation but which are necessary to accomplish the planned use of the facility. Demolition may occur on adjacent property that independently qualifies as abandoned or underutilized and is located in a municipality with fewer than 20,000 residents. Currently, some demolition activities associated with brownfield redevelopment are separate from remediation activities.

QUALITY JOBS PROGRAM

The substitute:

(1) Increases the annual cap on the amount of tax credits the department may issue for the Quality Jobs Program from $40 million to $60 million;

(2) Allows tax credits to be issued for job retention projects until August 30, 2013. Tax credits for this project type were only authorized through August 30, 2007;

(3) Allows a project facility to include separate buildings within the same county. Currently, they must be located within one mile of each other; and

(4) Allows a company that leases or owns facilities that produce electricity derived from qualified renewable energy sources, or which produce fuel for the generation of electricity from qualified renewable energy sources, to participate in the program as a technology business project if it meets the other requirements of the program. Qualified renewable energy sources include open-looped biomass, close-looped biomass, solar, wind, geothermal, and hydropower but not ethanol distillation or production or biodiesel production.

COMMUNITY IMPROVEMENT DISTRICTS

The substitute:

(1) Allows community improvement districts (CID) to exist in special business districts within the City of St. Louis. Currently, any CID in St. Louis that is also in a special business district cannot levy a CID sales tax unless special assessments imposed on real property or businesses within the special business district are repealed; and

(2) Excludes sales by public utilities and providers of communications, cable, or video services from the CID sales tax.

TAX POLICY

The substitute:

(1) Authorizes the department to issue letter rulings regarding the New Markets Tax Credit Program. The letter rulings are binding in a court of law and must be issued within 60 days of a request. The department can refuse to issue the letter ruling for good cause, but must explain the reason for refusal. Letter rulings are closed to the public; however, information can be released as long as anything which would identify the applicant or is otherwise protected is redacted; and

(2) Codifies a letter ruling issued from the Department of Revenue exempting from state and local sales and use tax all personal property included on the United States munitions list that is sold to or purchased by a foreign government for a governmental purpose.

The bill contains an emergency clause regarding the Small Business Incubators Program.

FISCAL NOTE: Estimated Cost on General Revenue Fund of $96,031 to $36,596,031 in FY 2009, $103,498 to $36,603,498 in FY 2010, and $106,602 to $36,606,602 in FY 2011. No impact on Other State Funds in FY 2009, FY 2010, and FY 2011.

PROPONENTS: Supporters say that the bill will increase the annual caps on several tremendously successful programs. The Quality Jobs Program produces more than $3 for every $1 spent and is one of the most useful economic development tools the state has, attracting new jobs and encouraging job growth in Missouri. The bill establishes a new tax credit program for the angel investments. These are investments made in very early-stage, start-up companies, at a time when the company likely would not obtain traditional venture capital. Missouri does a very good job of receiving federal research dollars, but has not been good at transitioning this research into creating patents or products, which in turn create new jobs. The program will encourage more patent and product development. The bill codifies an existing sales and use tax exemption regarding the sale of aircraft to foreign countries. These sales are regulated, controlled, and monitored by the federal government and are currently exempt from state and local sales and use tax, based on a binding letter ruling from the Department of Revenue.

Testifying for the bill were Representative Pearce; Missouri Economic Development Council; Associated Industries of Missouri; Taxpayers Research Institute of Missouri; Boeing Company; City of St. Louis; St. Louis County; St. Louis Community College; Missouri Community College Association; Benjamin Jones, America's Heartland Economic Partnership; Cape Girardeau Area Chamber of Commerce; Don Laird, Columbia Chamber of Commerce; John Thompson, Centennial Investors Fund; Economic Development Corporation of Kansas City; Gilbert Bickel, St. Louis Arch Angels; James DeLong, St. Louis Regional Chamber and Growth Association; Robert Marcusse, Kansas City Area Development Council; Joshua Harden, Show Me Energy; Tracy Branter and Delores Hudson, Johnson County Economic Development Corporation; Matt Robinson, Environmental Operations, Incorporated; Policy Solutions; Jefferson City Area Chamber of Commerce; Missouri Enterprise Technology Association; John W. Bude, Carthage Chamber of Commerce; John Bude, City of Carthage; Greater Kansas City Chamber of Commerce; Missouri

Chamber of Commerce and Industry; Advantage Capital; Center for Emerging Technologies; and Missouri Growth Association.

OPPONENTS: There was no opposition voiced to the committee.

OTHERS: Others testifying on the bill say that Missouri is earning the reputation that it's a great state in which to do business. Economic development policies are very important. The programs included in the bill are very successful and increasing the caps will only improve them. The Missouri Technology Program is a very important program. Now that we have economic development policies and programs in place to bring new jobs to Missouri, we can begin to look toward assisting very small start-ups when they need investment the most, which is before they can obtain traditional venture capital. Missouri is ninth in the nation for receiving federal research dollars, but we don't produce enough patents from this research and don't produce enough products. The program will change this. Economic development growth from within is better than anything we can draw upon from outside. Missouri has a lot of momentum, and the bill will help Missouri build better infrastructure for years to come.

Testifying on the bill was Department of Economic Development.