COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1614-04
Bill No.: HCS for HB Nos. 658 & 706
Subject: Agriculture and Animals; Revenue Department; Tax Credits
Type: Original
Date: March 31, 2009

Bill Summary: This proposal creates a tax credit for qualifying milk production.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
General Revenue	$0	$0	$0
Total Estimated Net Effect on General Revenue Fund*	**$0**	**$0**	**$0**

*** This proposal could allocate roughly $54.6 million of unused tax credits to this new program in fiscal years 2010, 2011 and 2012.**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 9 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
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 2010	FY 2011	FY 2012
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

In response to a previous version of this proposal, officials from the **Office of Administration - Budget and Planning (BAP)** stated this proposal creates a tax credit for qualifying milk production. The tax credits shall be limited to $25,000 per milk producer taxpayer per year. The total amount of tax credits available under this program is the sum of unissued tax credits under the program cap for each of the programs listed below. The table below lists the FY '08 issuance and the available balance for each tax credit program. Assuming that the amount of unissued tax credits under the listed programs is similar to that in FY '08, this proposal could lower general and total state revenues up to $34.5 million (see below).

Program	Program Limits ($ millions)	FY08 Issued ($ millions)	FY08 Unissued ($ millions)
1. Neighborhood Assistance Program 2. Affordable Housing Assistance 3. Development TOTAL	$30.0	$23.1	$6.9
Distressed Areas Land Assemblage	$10.0	$10.0*	$0
Neighborhood Preservation	$16.0	$6.4	$9.6
Rebuilding Communities	$10.0	$1.7	$8.3
New Markets	$15.0	$9.2**	$5.8
Family Development Account	$4.0	$0.01	$3.99
Total Available			$34.5

* DED FY 2010 Estimate
** DED FY 2009 estimate

In response to a previous version of this proposal, officials from the **Department of Economic Development (DED)** stated they anticipate an unknown impact as a result of the proposed legislation. The proposed legislation transfers unused credits from the several DED tax credit programs to the Milk Production Tax Credit administered by the Department of Agriculture. It would be difficult to determine the amount of tax credits that would be available to transfer to the new Milk Production Tax Credit but there would be an impact because these credits would have been unused otherwise.

ASSUMPTION (continued)

In response to a previous version of this proposal, officials from the **Department of Agriculture - Missouri Agriculture and Small Business Development Authority (MASBDA)** stated current staffing should be adequate to administer the program and expense and equipment will be covered by the application fee that MASBDA may charge for the issuance of the credit.

Oversight will assume MASBDA's potential income and expenses are considered 'off-line' of state funds and appropriations and therefore, will not be reflected in the fiscal note.

In response to a previous version of this proposal, officials from the **Office of Secretary of State (SOS)** stated 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, the SOS also recognizes 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 the office can sustain with the core budget. Therefore, the SOS reserves 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.

In response to a previous version of this proposal, officials from the **Department of Revenue (DOR)** stated their Personal Tax section would require one Revenue Processing Technician I (at $25,380 annually) for every 6,000 additional credits claimed. DOR states their Corporate Tax section would need one Revenue Processing Technician I for every 5,200 additional returns verified as well as one Revenue Processing Technician I for every 2,080 pieces of additional correspondence generated. In summary, DOR assumes the need for three additional FTE at a total cost to the General Revenue fund of $115,843 in FY 2010, $123,257 in FY 2011 and $126,954 in FY 2012.

Oversight assumes this proposal simply moves unused tax credits from one program to another and that the Department of Revenue has already reflected potential administrative costs in the fiscal note for the original programs. Therefore, Oversight will assume the Department of Revenue will be able to administer the changes set forth in this proposal with existing resources.

Oversight assumes the proposal would earmark any unused tax credits in eight other programs to be used in the new Milk producer tax credit program. According to DED's Tax Credit Analysis pages, the amount of tax credits annually available under the programs as well as the amounts

ASSUMPTION (continued)

issued in 2008 are:

Program	Section	Annual Cap	Issued in FY'08	Difference
Neighborhood Assistance	32.115	$16 million	$13.3 million	$2.7 million
Affordable Housing	32.115	$11 million	$8.5 million	$2.5 million
Development	32.115	$6 million	$1.3 million	$4.7 million
Land Assemblage	99.1205	$10 million	$0	$10 million
Neighborhood Preservation	135.484	$16 million	$6.4 million	$9.6 million
Rebuilding Communities	135.535	$8 million	$1.7 million	$6.2 million*
New Markets	135.680	$15 million	$0	$15 million
Family Development	208.770	$4 million	$.1 million	$3.9 million
TOTALS		$86 MILLION	$31.3 MILLION	$54.6 MILLION

* The first $100,000 of unused Rebuilding Communities tax credits are already earmarked for the Accessible Home Tax Credit

Therefore, with redirecting the unused tax credits from the other eight programs to the new Milk Producers program, this could have increase tax credit issuances by $54.6 million in FY 2008. Oversight does not have information regarding the tax credit issuance estimates for fiscal years 2010 through 2012.

For budgeting purposes, Oversight assumes this proposal could reduce Total State Revenues by $54.6 million each year. However, since **Oversight** has already reflected the potential loss of the various tax credit program of up to their annual limits, Oversight will assume this proposal does not increase the annual limits (total of $86 million), and therefore, the fiscal impact of the proposal has already been reflected in prior fiscal notes. Therefore, even though this proposal will increase utilization of tax credits, Oversight will not reflect an additional loss of revenue to the General Revenue Fund. Oversight does not have information regarding the number of milk producers in Missouri that would qualify for this program, but the proposal limits the tax credits to $25,000 per milk producer per year.

ASSUMPTION (continued

Oversight compared the total tax credit issuances relative to the total tax credit redemptions for the previous four years in order to determine a relationship between the two. Oversight discovered that the annual redemptions ranged from 81 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 $54,600,000 of credits are issued, Oversight would assume $45,300,000 (83%) of credits to be redeemed, reducing Total State Revenues.

Since the tax credits for the new program are for all tax years beginning on or after January 1, 2009, **Oversight** will assume the first fiscal year in which the tax credits could be redeemed would be in FY 2010. Therefore, Oversight will not reflect a potential impact from the credits in FY 2010. Oversight assumes the new program sunsets on December 31, 2011, or in Fiscal Year 2012.

Oversight assumes there will some fiscal benefit resulting from this proposal; however, Oversight considers those benefits to be an indirect impact and have not reflected them on the fiscal note.

This proposal could reduce Total State Revenues.

FISCAL IMPACT - State Government	FY 2010 (10 Mo.)	FY 2011	FY 2012
GENERAL REVENUE			
Savings - Neighborhood Assistance tax credit program (to new program)	$0 to $2,700,00	$0 to $2,700,000	$0 to $2,700,000
Savings - Affordable Housing tax credit program (to new program)	$0 to $2,500,000	$0 to $2,500,000	$0 to $2,500,000
Savings - Development tax credit program (to new program)	$0 to $4,700,000	$0 to $4,700,000	$0 to $4,700,000

FISCAL IMPACT - State Government (continued)	FY 2010 (10 Mo.)	FY 2011	FY 2012
Savings - Land Assemblage tax credit program (to new program)	$0 to $10,000,000	$0 to $10,000,000	$0 to $10,000,000
Savings - Neighborhood Preservation tax credit program (to new program)	$0 to $9,600,000	$0 to $9,600,000	$0 to $9,600,000
Savings - Rebuilding Communities tax credit program (to new program)	$0 to $6,200,000	$0 to $6,200,000	$0 to $6,200,000
Savings - New Markets tax credit program (to new program)	$0 to $15,000,00	$0 to $15,000,000	$0 to $15,000,000
Savings - Family Development tax credit program (to new program)	$0 to $3,900,000	$0 to $3,900,000	$0 to $3,900,000
Loss - tax credits for Milk Producers (assigned unused tax credits from eight other programs as listed above)	$0 to ($54,600,000)	$0 to ($54,600,000)	$0 to ($54,600,000)
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	**$0**	**$0**	**$0**

FISCAL IMPACT - Local Government	FY 2010 (10 Mo.)	FY 2011	FY 2012
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

Small milk producer businesses could benefit greatly from this proposal.

FISCAL DESCRIPTION

Beginning January 1, 2009, this bill authorizes a tax credit for any resident taxpayer who is actively engaged in milk production. The tax credit will be based on milk production for any month in which the average of the United States Department of Agriculture (USDA) Uniform Prices in Federal Orders Numbers 7 and 32 drops below the announced production price during the calendar year.

Beginning January 1, 2009, and the first day of every month thereafter, the Missouri Agriculture and Small Business Development Authority must report and make available to the public the announced price of milk based on:

(1) The average price of milk in the top five states where milk is imported into Missouri;

(2) The average transportation costs of importing milk from the top five states where milk is imported into Missouri; and

(3) The cost of milk production in the State of Missouri.

In any month in which tax credits are available, eligible taxpayers may be issued a tax credit equal to the sum of the difference between the average of the USDA price and the announced price multiplied by the amount of milk produced during the month in pounds divided by 100.

MASBDA cannot issue more than $25,000 in tax credits per eligible taxpayer per year. The tax credit is not transferrable or refundable and must be claimed in the year in which the credit is issued. Taxpayers must submit to the department an application on a form provided by the department.

The department cannot issue more credits in any calendar year than are allocable to this program. Credits may be allocated to this program, but any remaining unissued tax credits in the following programs may also be made available annually for allocation to this program:

(1) Up to $30 million in neighborhood assistance tax credits which have not been issued by April 30;

FISCAL DESCRIPTION (continued)

(2) Up to $10 million in distressed areas land assemblage tax credits which have not been issued by December 1;

(3) Up to $16 million in rebuilding communities and neighborhood preservation tax credits which have not been issued by December 1;

(4) Up to $10 million in tax credits for investment in, or relocating a business to, a distressed community which have not been issued by December 1;

(5) Up to $15 million in qualified equity investment tax credits which have not been issued by April 30; and

(6) Up to $4 million in family development account tax credits which have not been issued by April 30.

The provisions of the bill will expire two 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 Economic Development
Office of Administration - Budget and Planning
Department of Revenue
Office of the Secretary of State

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