

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5424-01
Bill No.: HB 2381
Subject: Tax Credits, Banks and Financial Institutions, Enterprise Zones
Type: Original
Date: April 7, 2010

Bill Summary: Would provide an income tax deduction for interest on loans to individuals or entities located in enterprise zones.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
General Revenue	(Unknown)	(Unknown)	(Unknown)
Total Estimated Net Effect on General Revenue Fund	(Unknown)	(Unknown)	(Unknown)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
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 2011	FY 2012	FY 2013
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
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 2011	FY 2012	FY 2013
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of the Secretary of State (SOS)** stated that 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 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.

Officials from the **Office of Administration, Division of Budget and Planning (BAP)** assume the proposed legislation would not result in additional costs or savings to their organization.

This proposal would provide a deduction from income taxes for banks that make qualifying loans to entities in enterprise zones. BAP does not have information on how many loans may qualify or the interest earned on these loans. This proposal would reduce general and total state revenues by an unknown amount.

Oversight has no information regarding loans by banks to individuals or entities located in enterprise zones, nor the interest on those loans, and will indicate an unknown revenue reduction for the General Revenue Fund for this proposal.

Officials from the **Department of Economic Development** assume this proposal would have no fiscal impact to their organization.

Officials from the **Department of Insurance, Financial Institutions, and Professional Registration (DIFP)** assume this proposal would have no fiscal impact to their organization. DIFP officials deferred to the Department of Revenue for an estimate of the fiscal impact of the proposal.

ASSUMPTION (continued)

Officials from the **Department of Revenue** (DOR) assume this proposal would create an additional deduction beginning January 1, 2010. Taxpayers would be allowed a deduction for any income tax due on any interest realized from a loan made to an individual or entity within an enterprise zone.

DOR would create procedures by which the deduction may be claimed and would create rules to implement the provisions of this section.

DOR assumes Personal Tax would need two FTE Temporary Tax Employees for key entry, one FTE Revenue Processing Technician I (Range 10, Step L) per 19,000 returns manually reviewed, and one FTE Revenue Processing Technician I (Range 10, Step L) per 2,400 pieces of correspondence.

DOR also provided an estimate of the cost to implement the proposal including two additional employees and the related benefits, equipment, and expenses totaling \$92, 691 for FY 2011, \$100,712 for FY 2012, and \$103,735 for FY 2013.

Oversight notes that the DIFP website indicates there are 319 banks in the state and assumes the additional information required for 319 filers could be processed with existing resources. If unanticipated additional costs are incurred or if multiple proposals are enacted which increase the DOR workload, resources could be requested through the budget process.

Oversight also assumes the DOR estimate of expense and equipment cost for additional FTE could be overstated. If DOR is able to use existing equipment such as desks, file cabinets, chairs, etc., the estimate for equipment for fiscal year 2012 could be reduced by roughly \$5,000 per employee.

DOR officials estimated the IT cost to implement this proposal at \$40,068 based on 1,512 programmer hours to changes to corporate income tax systems.

Oversight assumes OA-ITSD (DOR) is provided with core funding to handle a certain amount of activity each year. Oversight assumes OA-ITSD (DOR) could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, OA-ITSD (DOR) could request funding through the appropriation process.

<u>FISCAL IMPACT - State Government</u>	FY 2011 (10 Mo.)	FY 2012	FY 2013
GENERAL REVENUE FUND			
<u>Revenue reduction</u> - new tax deduction	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
 <u>FISCAL IMPACT - Local Government</u>	 FY 2011 (10 Mo.)	 FY 2012	 FY 2013
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

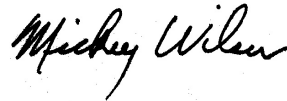
FISCAL DESCRIPTION

The proposed legislation would provide an income tax deduction for interest on loans to individuals or entities located in enterprise zones.

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

Office of the Secretary of State
Office of Administration
 Division of Budget and Planning
Department of Economic Development
Department of Insurance, Financial Institutions, and Professional Registration
Department of Revenue

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, flowing style.

Mickey Wilson, CPA
Director
April 7, 2010