COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5582-01
Bill No.: Perfected HB 1684 with HPA 1
Subject: Tax Credits; Energy; Agriculture and Animals
Type: Original
Date: April 24, 2014

Bill Summary: This proposal modifies numerous tax credit programs.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
General Revenue	$0 to ($3,000,000)	$0 to ($7,894,155)	$0 to ($7,894,155)
Total Estimated Net Effect on General Revenue Fund	**$0 to ($3,000,000)**	**$0 to ($7,894,155)**	**$0 to ($7,894,155)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
Blind Pension	(Unknown)	(Unknown)	(Unknown)
Total Estimated Net Effect on Other State Funds	**(Unknown)**	**(Unknown)**	**(Unknown)**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 10 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
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 2015	FY 2016	FY 2017
Local Government	**(Unknown)**	**(Unknown)**	**(Unknown)**

FISCAL ANALYSIS

ASSUMPTION

§135.305 Wood Energy Tax Credit
Officials at the **Office of Administration's Division of Budget and Planning** (**BAP**) assume this proposal would not fiscally impact BAP. The three year average amount authorized under this tax credit program was $3.1 million. Therefore, this proposal may reduce General and Total State Revenues by $3 million annually.

Officials at the **Department of Economic Development** assume there is no identifiable fiscal impact to the Division of Energy. The proposal does not assign any direct or indirect duties or responsibilities to the Division of Energy. The Division would continue to administer the wood energy tax credit with existing resources.

The expired wood energy tax credit is reauthorized through December 31, 2020 and is capped at $3 million per fiscal year; therefore, the potential amount of reduced revenue to the state may be equal to the cap or approximately $18 million in the aggregate if all tax credits are claimed through 2020 and used through 2025.

Officials at the **Department of Revenue** assume there is no fiscal impact from this proposal.

Oversight notes according to the Tax Credit Analysis submitted by the Department of Economic Development regarding this program, the Wood Energy tax credit program had the following activity;

	FY 2011	FY 2012	FY 2013
Certificates Issued (#)	17	10	12
Projects (#)	17	10	12
Amount Authorized	$3,269,364	$3,060,710	$2,990,840
Amount Issued	$3,269,364	$3,060,710	$2,990,840
Amount Redeemed	$3,818,378	$2,282,401	$3,563,209

Oversight assumes this part of the proposal extends the Wood Energy tax credit from its current expiration date of June 30, 2013 to June 30, 2020. It also places an annual cap of $3 million on this tax credit. The five year issue average of this credit has been $3,253,294. Extending the tax credit will result in a potential loss of revenue to the state of $0 (no credits issued) to the new annual cap.

ASSUMPTION (continued)

§135.710 Alternative Fuel Station Tax Credit
In response to similar legislation filed this year, HB 1610, officials at the **Office of Administration's Division of Budget and Planning** (**BAP**) assume no fiscal impact from this proposal to BAP. This proposal renews and modifies the Alternative Fuel Station tax credit for tax years 2015 to 2020. The proposal also expands the list of qualifying properties to include certain electric vehicle recharging stations. The program is capped at $1 million annually, and may therefore reduce General and Total State Revenues by this amount. BAP notes $69,454 was redeemed under this program in FY 2012.

In response to similar legislation filed this year, HB 1610, officials at the **Department of Economic Development** assume that due to inclusion of eligibility of private citizens for tax credits up to $1,500, the department anticipates there will be a fiscal impact from this proposal. DED expects there could be a large number of installations of electric vehicle (EV) recharging stations by private citizens. If an individual is considering the purchase of an EV, it is safe to assume the individual will also purchase a charging station for his/her home to be able to charge the vehicle overnight.

Estimates of the cost for purchase and installation of EV recharging stations range from $2,000 - $2,300 for a Level 2 (dedicated outlet charging in approximately 6-7 hours). A faster charging residential installation could be up to $10,000 according to one source. DED assumes most installations will be for the Level 2 mid-range station which would be very attractive if there is a tax credit of $1,500. Until December 31, 2013, there was also a federal tax credit for such recharging stations. It is not known whether this tax credit will be renewed. Limited research into similar tax credits for private citizens in other states revealed a 20% of total cost of the installation or up to $400 tax credit in Maryland and a 25% or $750 credit in Oregon.

The market for EVs tripled from approximately 17,500 sold in the U.S. in 2011 to 53,000 new EVs in 2012. It is likely that the number of EVs will continue to increase dramatically as consumers become more exposed to EV technology and manufacturers release more makes and models of EVs that appeal to a broader range of consumers. However, for purposes of this fiscal note, a conservative estimate is that the number of EVs sold in the U.S. will be at only 17,500/year, although it is likely to be more. If the EVs are distributed proportionally with population among the states, Missouri could expect the following EV purchases and EV recharging stations:

1,800 in 2014
2,160 in 2015
2,500 in 2016
2,880 in 2017 and

ASSUMPTION (continued)

3,200 in 2018.

In addition, there are likely to be business entities installing EV recharging stations as well as other alternative refueling facilities, especially compressed natural gas (CNG) stations due to the lower cost of natural gas.

The Division of Energy would need to review applications and confirm eligibility and costs as well as whether a Missouri contractor (if located within 75 miles) was used for 51% of the costs of the station. We estimate one additional Energy Specialist III would be needed to perform these duties to be able to certify eligibility to the Department of Revenue.

In response to similar legislation filed this year, officials at the **Department of Revenue** assume there is no fiscal impact from this proposal.

Oversight notes according to the Tax Credit Analysis submitted by the Department of Economic Development regarding this program, the Alternative Fuel Station tax credit program had the following activity;

	FY 2011	FY 2012	FY 2013
Amount Authorized	$87,925	$91,365	$0
Amount Issued	$87,925	$91,365	$0
Amount Redeemed	$23,365	$45,690	$69,454

Oversight notes this credit began on August 28, 2008 for tax years starting January 1, 2009. The program required the alternative fuel stations to be built between January 1, 2009, and January 1, 2012, to qualify for the tax credit. This program has a sunset date that requires it to end on August 28, 2014.

Oversight assumes this proposal reauthorizes the Alternative Fuel tax credit. This credit will begin with tax years starting January 1, 2015, and therefore the Fiscal Years impacted would be 2016 and 2017. Oversight assumes this proposal places a $1 million cap on this proposal and therefore, Oversight will show the loss of revenue to the State as $0 (no credits issued) to $1 million.

Oversight assumes this proposal may allow private citizens to claim the credit however, the cap on the proposal remains the same. Oversight assumes DED would be able to handle this credit with its existing staff.

ASSUMPTION (continued)

§137.010 Taxation Definition
Officials at the **BAP** assume this proposal adds certain equipment for the storage of certain propane or LP products to the definition of "real property". BAP notes this may lower the ratio used to calculate the assessed value of property. To the extent that local political subdivisions cannot adjust levies to make up any reduced revenues, this may result in lower local revenues, including revenues for school districts. The State Tax Commission may be able to provide additional information.

Oversight assumes this part of the proposal adds "propane or LP gas equipment" to the list of items that are considered to be real property. They are currently considered personal property. Changing from personal property to real property will reduce the assessment ratio causing a loss of assessed valuation, which in turn will reduce local government revenue. Additionally, it will result in a loss of ½ of 1% of the local government revenue reduction to the Blind Pension Fund. At this time it is unknown how much equipment qualifies for this reclassification and therefore it is unknown how large the loss of revenue to local government and the Blind Pension Fund would be. Oversight will reflect an Unknown loss for local governments and the Blind Pension Fund.

Oversight notes, any estimate of revenue losses due to a reduction in the assessed valuation for specific items should be considered in the context of current state limitations on local government tax revenues. Based on our review of property tax rate information developed by the Office of the State Auditor, Oversight has determined that many local governments would be able to compensate for a reduction in assessed valuation by increasing tax rates within existing tax rate ceilings.

§135.700 Wine and Grape Tax Credit
This proposal makes changes to the wine and grape tax credit in §135.700. The proposal opens the credit to distilleries and micro breweries. It will also allow for the purchase of used equipment eligible for a 25% tax credit of the purchase price. The proposal places a $4 million dollar cap on the program and places an annual $100,000 limit on tax credits per applicant. The tax credit is also non-refundable.

In response to similar legislation filed this year, HB 1628, officials at the **Office of Administration's Division of Budget and Planning** (**BAP**) assume this proposal would not fiscally impact BAP. The three-year average amount authorized for this program is $75,000. Therefore, this could result in a reduction to General and Total State Revenues by $0 to ($3.925 million).

ASSUMPTION (continued)

Officials at the **Department of Economic Development** assume a negative fiscal impact of $0 to $4,000,000 for this proposal.

In response to similar legislation filed this year, HB 1628, officials at the **Department of Revenue** (**DOR**) assume the Personal Tax Division could have an increased number of redemptions and therefore they would need one Revenue Processing Technician I for the additional tax redemptions. The Corporate Tax Division assumes they would need on Revenue Processing Technician I for the additional redemptions.

Oversight notes according to the Tax Credit Analysis submitted by the Department of Economic Development regarding this program, the Wine Producers and Grape Growers tax credit program had the following activity;

	FY 2011	FY 2012	FY 2013
Certificates Issued (#)	17	14	9
Projects (#)	17	15	10
Amount Authorized	$90,014	$111,568	$22,768
Amount Issued	$90,014	$104,522	$27,746
Amount Redeemed	$29,411	$61,598	$94,186

Oversight assumes this proposal places an annual cap of $4,000,000 on this tax credit. Previously this credit did not have a cap. Oversight assumes placing a cap on this credit would not have a fiscal impact. However, this proposal expands the list of taxpayers that can claim the credit to include distilleries and micro breweries. Currently the five year issue average of this credit is $105,845. This expansion could allow more taxpayers to claim the credit. Oversight will show the loss of revenue to the state as $0 (no additional credits are issued) to the difference between the current issue average and the new cap ($4,000,000 - $105,845 = $3,894,155).

FISCAL IMPACT - State Government	FY 2015 (10 Mo.)	FY 2016	FY 2017
GENERAL REVENUE			
Revenue Reduction - extension of the wood energy tax credit §135.305	$0 to ($3,000,000)	$0 to ($3,000,000)	$0 to ($3,000,000)
Revenue Reduction - extension of the alternative fuel tax credit §135.710	$0	$0 or ($1,000,000)	$0 or ($1,000,000)
Revenue Reduction - expansion of the wine and grape tax credit §135.700	$0	$0 to ($3,894,155)	$0 to ($3,894,155)
ESTIMATED NET EFFECT ON GENERAL REVENUE	**$0 to ($3,000,000)**	**$0 to ($7,894,155)**	**$0 to ($7,894,155)**
BLIND PENSION FUND			
Revenue Reduction - Blind Pension - changing from personal tax to real property tax §137.010	(Unknown)	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON BLIND PENSION	**(Unknown)**	**(Unknown)**	**(Unknown)**

FISCAL IMPACT - Local Government	FY 2015 (10 Mo.)	FY 2016	FY 2017
LOCAL GOVERNMENT FUNDS			
Revenue Reduction - Local Governments from changing from personal tax to real property tax §137.010	(Unknown)	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON LOCAL GOVERNMENT FUNDS	**(Unknown)**	**(Unknown)**	**(Unknown)**

FISCAL IMPACT - Small Business

Small businesses that qualify for these tax credits may be impacted.

FISCAL DESCRIPTION

This legislation modifies the wood energy tax credit program by extending it until June 30, 2020 and caps the program at three million dollars per fiscal year.

This legislation reauthorizes the alternative fuel tax credit for six years and adds electric vehicles recharging properties to the list of eligible properties.

This bill expands the wine and grape producers tax credit to include distillers and micro breweries and limits the total of all tax credits to $4 million per tax year and the total for each taxpayer to $100,000 per tax year.

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 Economic Development
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Division of Budget and Planning
Department of Revenue

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