COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0504-01
Bill No.: HB 676
Subject: Taxation and Revenue - General; Taxation and Revenue - Income; Taxation and Revenue - Sales and Use; Education, Higher
Type: Original
Date: February 17, 2015

Bill Summary: This proposal establishes the Education Innovation Investment Act that creates tax incentives for businesses and individuals working on unused or vacant areas of public institutions of higher learning.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
General Revenue	($79,661)	(Unknown greater than $85,957)	(Unknown greater than $86,774)
Total Estimated Net Effect on General Revenue	**($79,661)**	**(Unknown greater than $85,957)**	**(Unknown greater than $86,774)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
General Revenue	1 FTE	1 FTE	1 FTE
Total Estimated Net Effect on FTE	**1 FTE**	**1 FTE**	**1 FTE**

☒ Estimated Net Effect (expenditures or reduced revenues) expected to exceed $100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Oversight was unable to receive some of the agency responses in a timely manner due to the short fiscal note request time. Oversight has presented this fiscal note on the best current information that we have or on prior year information regarding a similar bill. Upon the receipt of agency responses, Oversight will review to determine if an updated fiscal note should be prepared and seek the necessary approval of the chairperson of the Joint Committee on Legislative Research to publish a new fiscal note.

Officials at the **Department of Economic Development** (**DED**) assume §135.1680 creates the Education Innovation Investment Act which is administered by DED. The Education Innovation Investment Act (EIIA) will give an eligible business a 50% reduction in the company AGI if they relocate to an eligible vacant building. The business would receive the tax break only on Missouri income taxes and the duration is 5 years as long as they are still located in the building. The program has a 6 year sunset and no annual cap.

DED would require 1 additional FTE to administer this program. DED requests an Economic Development Incentive Specialist II to create guidelines, accept and approve applications, and conduct compliance.

Officials at the **Missouri State University** (**MSU**) assume this proposal could potentially have a positive fiscal impact on MSU, the specific amount and extent of which cannot be determined and quantified at this time.

Officials at the **State Fair Community College**, the **Department of Higher Education**, and the **Joint Committee on Administrative Rules** each assume no fiscal impact from this proposal to their respective organizations.

Officials from the **Office of the Secretary of State (SOS)** state 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

ASSUMPTION (continued)

review of the finally approved bills signed by the governor.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process.

Oversight notes there are two different tax incentives in this proposal. The first incentive specifies that the first five years the eligible business is located in an unused or vacant area, an eligible business may subtract 50% of the eligible business's business income from the eligible business's federal adjusted gross income when determining Missouri adjusted gross income. The second incentive specifies any Missouri resident employed at a new job at an eligible business may subtract $10,000 of his or her income when determining Missouri adjusted gross income for the first five years the employee is employed at a new job in an unused or vacant area.

Oversight assumes there is no way to calculate the number of businesses that would be able to participate in this program. Therefore, Oversight will reflect an unknown loss of revenue to the state from the subtraction of the 50% of business income from AGI and the subtraction of the $10,000 of qualified taxpayer's income.

Oversight assumes DOR would incur an unknown amount of expenses administering the new tax deductions allowed in the proposal.

The tax deductions are for tax years beginning on or after January 1, 2016; therefore, Oversight will reflect the potential loss of income to the state beginning FY 2017. Oversight assumes a relatively few qualifying businesses and employees could utilize these programs and impact the General Revenue Fund by more than $100,000.

FISCAL IMPACT - State Government	FY 2016 (10 Mo.)	FY 2017	FY 2018
GENERAL REVENUE			
Revenue Reduction - subtraction of 50% of business income from AGI	$0	(Unknown)	(Unknown)
Revenue Reduction - subtraction of $10,000 of qualified taxpayer's income	$0	(Unknown)	(Unknown)
Costs - Department of Revenue - to administer the tax deductions	$0	(Unknown)	(Unknown)
Cost - Dept of Economic Development			
Personal Services	($39,107)	($47,397)	($47,871)
Fringe Benefits	($20,338)	($24,649)	($24,895)
Equipment and Expenses	($10,216)	($3,911)	($4,008)
Total Costs - DED	($69,661)	($75,957)	($76,774)
FTE Change - DED	1 FTE	1 FTE	1 FTE
ESTIMATED NET EFFECT ON GENERAL REVENUE	**($79,661)**	**(Unknown Greater than $85,957)**	**(Unknown Greater than $86,774)**
Estimated Net FTE Change on General Revenue	1 FTE	1 FTE	1 FTE

FISCAL IMPACT - Local Government	FY 2016 (10 Mo.)	FY 2017	FY 2018
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

Small businesses that qualify for this reduction of AGI may be positively impacted.

FISCAL DESCRIPTION

This bill establishes the Education Innovation Investment Act that creates tax incentives for any eligible business that establishes a presence within an unused or vacant area owned by a public two-year and four-year higher education institution and their employees. To qualify for the tax incentives, the institution must demonstrate that:

(1) The business will further the academic mission of the institution;

(2) The business will have a positive community and economic impact, including whether the business would compete with businesses within the same community;

(3) The institution and department agree on reasonable performance metrics for the eligible business, including the number of new jobs to be created; and

(4) No land that was acquired by the institution by right of condemnation after August 28, 2015, is used.

The bill specifies that the first five years the eligible business is located in an unused or vacant area, an eligible business may subtract 50% of the eligible business's business income from the eligible business's federal adjusted gross income when determining Missouri adjusted gross income. Any Missouri resident employed at a new job at an eligible business may subtract $10,000 of his or her income when determining Missouri adjusted gross income for the first five years the employee is employed at a new job in an unused or vacant area.

The provisions of the bill will expire six years after 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

State Fair Community College
Missouri State University
Joint Committee on Administrative Rules
Office of the Secretary of State
Department of Economic Development
Department of Higher Education

Mickey Wilson, CPA
Director
February 17, 2015

Ross Strope
Assistant Director
February 17, 2015

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