COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2432-01
Bill No.: HB 1122
Subject: Aircraft and Airports; Revenue, Department of; Economic Development; Economic Development, Department of
Type: Original
Date: March 17, 2015

Bill Summary: This proposal establishes the Missouri Export Incentive Act to encourage foreign trade through international airports in Missouri.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
General Revenue	($69,211 to $3,669,211)	($67,122 to $8,124,122)	($67,851 to $8,124,851)
Total Estimated Net Effect on General Revenue	**($69,211 to $3,669,211)**	**($67,122 to $8,124,122)**	**($67,851 to $8,124,851)**

Note: The fiscal note does not reflect the possibility that some of the tax credits could be utilized by insurance companies against insurance premium taxes. If this occurs, the loss in tax revenue would be split between the General Revenue Fund and the County Foreign Insurance Fund, which ultimately goes to local school districts.

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 from the **Department of Insurance, Financial Institutions and Professional Registration (DIFP)** stated an unknown reduction of premium tax revenues as a result of the creation of the Missouri Export Incentive Act is possible. Premium tax revenue is split 50/50 between General Revenue and County Foreign Insurance Fund except for domestic Stock Property and Casualty Companies who pay premium tax to the County Stock Fund. The County Foreign Insurance Fund is later distributed to school districts throughout the state. County Stock Funds are later distributed to the school district and county treasurer of the county in which the principal office of the insurer is located. It is unknown how each of these funds may be impacted by tax credits each year.

DIFP requires 56.16 hours of programming at $75 per hour for a total of $4,212 to the Premium Tax Credit System.

Oversight assumes DIFP is provided with core funding to handle a certain amount of computer programming activity each year. Oversight assumes DIFP could absorb the programming costs related to this proposal. If multiple bills pass which require additional duties at substantial costs, DIFP could request funding through the appropriation process.

Officials at the **Office of Administration's Division of Budget and Planning** (**BAP**) assume this proposal would establish the Missouri Export Incentive Act and create the Air Export Tax Credit. There is an aggregate cap of $60,000,000 on the amount of tax credits that may be authorized under this program. There is a $3,600,000 cap on the tax credit for the initial year of the program, and then a $8,057,000 cap for each subsequent year thereafter. Therefore, BAP estimates this proposal could reduce general and total state revenues up to this amount annually, and could impact the calculation under Article X, Section 18(e).

This program may encourage economic activity within Missouri's export businesses and related support industries, but BAP does not have the data to estimate the induced revenues.

ASSUMPTION (continued)

Oversight assumes the changes in this proposal would have a positive impact on the state. However, Oversight considers this to be indirect impact of the proposal and will not reflect it in the fiscal note.

In response to similar legislation filed last year (HB 1500), officials at the **Department of Economic Development** (**DED**) assumed §135.1550 established the Air Export Tax Credit which allowed an air export tax credit to freight forwarders for a shipment of cargo on a qualifying outbound flight from any Missouri airport. The air export tax credit had an aggregate cap of $60 million with a fiscal year cap of $3.6 million. Tax credits are based on 40 cents per chargeable kilo on a shipment of cargo. These credits may not be transferred, sold and they do not have a 6-year carry forward provision. The act required DED to establish procedures to allow freight forwarders to receive air export tax credits within twenty business days of the date of the filing of the application, which the freight forwarder must file within 120 days of shipment. The program automatically sunsets eight years after the effective date, unless reauthorized by the General Assembly.

DED assumed a negative fiscal impact ranging from $0- $3.6 million for fiscal year 2015 or up to $8,057,000 for subsequent years. This negative impact would be offset by an unknown positive economic benefit as a result of the increase in economic activity as a result of the program. DED required one additional FTE to administer the program due to the anticipated amount of administration involved. The FTE would be an Economic Development Incentive Specialist III and be responsible for reviewing and approving the applications for the program to determine eligibility, establishing procedures, reviewing the tax credit applications to make sure they meet the criteria of the program, drafting and sending the tax credit awards, and ensuring compliance with the program.

In response to similar legislation filed last year (HB 1500), officials at the **Department of Revenue** (**DOR**) assumed this proposal would require computer programming changes to various tax systems. The IT portion was estimated at 840 FTE hours for a total of $22,932.

In response to similar legislation filed last year (HB 1500), **DOR** assumed its Personal Tax Division required one Revenue Processing Technician I for tax credits processed. The Corporate Tax Division required one Revenue Processing Technician I for tax credits redeemed.

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

ASSUMPTION (continued)

Oversight assumes there would be a limited number of entities eligible for this credit and that DOR could absorb the additional workload with existing resources. If this proposal creates a significant unanticipated increase in the DOR workload, or if multiple proposals were implemented, resources could be requested through the budget process.

In response to similar legislation filed last year (HB 1500), officials at the **Joint Committee on Administrative Rules** assumed there is no fiscal impact from this proposal.

In response to similar legislation filed last year (HB 1500), officials from the **Office of the 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.

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 assumes the first time a Freight Forwarder can apply for the tax credit is July 1, 2015; so the first time the Freight Forwarder could claim the credits would be on their calendar year 2015 tax return filed after January 1, 2016. Therefore, Oversight will show the impact of this proposal beginning in Fiscal Year 2016, as $0 (no credits issued) to each year's annual cap.

FISCAL IMPACT - State Government	FY 2015	FY 2016	FY 2017
GENERAL REVENUE			
Revenue Reduction - Air Export tax credit §135.1550	$0 to ($3,600,000)	$0 to ($8,057,000)	$0 to ($8,057,000)
Cost - Department of Economic Development			
Personal Service	($41,520)	($41,935)	($42,355)
Fringe Benefits	($21,177)	($21,389)	($21,603)
Equipment and Expense	($6,514)	($3,798)	($3,893)
Total Cost - DED	($69,211)	($67,122)	($67,851)
FTE Change - DED	1 FTE	1 FTE	1 FTE
ESTIMATED NET EFFECT ON GENERAL REVENUE	**($69,211 to $3,669,211)**	**($67,122 to $8,124,122)**	**($67,851 to $8,124,851)**
Estimated Net FTE Change on General Revenue	1 FTE	1 FTE	1 FTE

Note: The fiscal note does not reflect the possibility that some of the tax credits could be utilized by insurance companies against insurance premium taxes. If this occurs, the loss in tax revenue would be split between the General Revenue Fund and the County Foreign Insurance Fund, which ultimately goes to local school districts.

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

FISCAL IMPACT - Small Business

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

FISCAL DESCRIPTION

For all fiscal years beginning on or after July 1, 2015, a freight forwarder will be entitled to an air export tax credit equal to 40 cents per chargeable kilo for the shipment of cargo on a direct

FISCAL DESCRIPTION (continued)

international aircraft flight that carries either all cargo or a mix of passengers and cargo. The amount of air export tax credits will adjust each year depending on fluctuations in the cost of fuel for over-the-road transportation. Each year the amounts of the tax credits must be indexed by the Department of Economic Development and published in the Missouri Register by the Secretary of State.

A freight forwarder must file an application, to claim the tax credit, with the department within 120 calendar days of the date of the shipment. The application must include the master airway bill for the shipment on the qualifying outbound flight. The department must establish procedures that will allow the claiming freight forwarder to receive the tax credit within 20 days of filing the application.

The air export tax credit will be authorized until June 30, 2023. The total aggregate cap for the air export tax credit is $60 million. The total amount of tax credits authorized in the first year are capped at $3.6 million. After the first year, the annual cap is $8,057,000.

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 Insurance, Financial Institutions, and Professional Registration
Office of Administration's Division of Budget and Planning

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March 17, 2015	March 17, 2015

SJ:LR:OD