

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5107-07
Bill No.: HCS for HB 1927
Subject: Economic Development; Agriculture; Agriculture, Department of; Tax Credits;
Business and Commerce; Science and Technology
Type: Original
Date: April 6, 2016

Bill Summary: This proposal establishes the Show Me Rural Jobs Act.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
General Revenue	(\$68,855)	\$0	(Up to \$20,000,000)
Total Estimated Net Effect on General Revenue	(\$68,855)	\$0	(Up to \$20,000,000)

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 2017	FY 2018	FY 2019
Show Me Rural Jobs*	\$0	\$0	\$0
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

*Transfers In and Costs net to zero.

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

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Show Me Rural Jobs	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 2017	FY 2018	FY 2019
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Department of Economic Development (DED)** assume this proposed legislation amends chapter 620 by adding 620.1950-620.1956 to be called the Show Me Rural Jobs Act.

- §620.1951 - definitions
- §620.1952 - creates the Show Me Rural Jobs Fund to hold the money collected under the program. The Treasurer is the custodian of the fund. Money in the fund is appropriated by the legislature and is used to administer the program.
- §620.1953 - Requires the DED to create and manage an application process for approved investment companies. This will require that DED hire two additional FTE.
- §620.1954 - creates a tax credit that DED administers for taxpayers who make a capital contribution to an approved investment company. The taxpayer earns a vested credit equal to the amount of the capital contribution. The taxpayer may claim up to 20% of the credit authorized for each of the five tax years occurring after July 1, 2018. The amount of credits claimed in one year by all taxpayers cannot exceed \$20 million.
- §620.1955 - explains when DED can revoke the tax credit
- §620.1956 - requires approved investment companies to submit a report to Agriculture and DED on or before the fifth business day after the second anniversary of the closing date.

This proposed legislation will create a new tax credit for DED to administer with an annual cap of \$20 million. DED will require 1 new FTE beginning in FY17 to develop, implement, and facilitate this program. DED will be issuing credits prior to the tax year the credit takes effect (tax years after July 1, 2018). The recipients must wait until then to redeem them.

The fiscal impact is 2 FTE, and \$20 million per year beginning in the first tax year after July 1, 2018.

Oversight assumes the duties outlined in this proposal can be handled by 1 FTE. Should DED see an increase in tax credit issuances to justify an additional FTE, they can seek that FTE through the appropriation process.

Oversight has, for fiscal note purposes only, changed the starting salary for the Economic Development Incentive Specialist III (\$42,288) to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees over the last six months and policy of the Oversight Subcommittee of the Joint Committee on Legislative Research.

ASSUMPTION (continued)

Officials at the **Department of Revenue (DOR)** assume this legislation creates a nonrefundable tax credit for taxpayers who make contributions to an approved investment company and receive a tax credit certificate under §620.1953. The taxpayer cannot sell, transfer, or allocate the tax credit to other entities except affiliates. The taxpayer may claim up to 20 percent of the authorized credit for each of the five tax years occurring after July 1, 2018.

Under certain circumstances, the Department of Economic Development (DED) must revoke a tax credit certificate issued under §620.1953. If DED revokes a tax credit certificate, the DOR must make an assessment for the amount of credit claimed by the holder before DED revoked.

DOR requires forms changes and programming to implement the provisions of this legislation at a cost of \$75 per hour for 335.88 for a total cost of \$25,191. Also, the integrated tax system requires updates at a cost of \$43,664.

Personal Tax requires one (1) Revenue Processing Technician I per 4,000 tax credits redeemed. Corporate Tax requires one (1) Revenue Processing Technician I per 4,000 tax credits redeemed.

DOR and DED must develop procedures in order for DED to notify the DOR if it revokes a company's tax credit.

Oversight assumes the duties outlined in this proposal can be handled by current staff. Should DOR see an increase in tax credit redemptions to justify an additional FTE, they can seek that FTE through the appropriation process.

Officials at the **Office of Administration's Division of Budget and Planning (BAP)** assume the proposed legislation would create the "Show-Me Rural Jobs Fund" which would consist of receipts from a \$5,000 nonrefundable application fee submitted by investment companies applying for growth capital and credit-eligible capital contributions through the Department of Agriculture, as well as \$5,000-per-day penalties charged against approved investment companies for violations. Applications can be accepted beginning October 1, 2016, which could impact FY 17 revenues. However, there is not enough available data for BAP to estimate the potential revenues to this new fund.

The proposal would also create a new tax credit program to be administered by the Departments of Agriculture and Economic Development for taxpayers who make a capital contribution to an approved investment company. The taxpayer could claim up to 20% of the credit authorized for each taxable year beginning after July 1, 2018; therefore, General and Total State Revenues may be reduced as early as FY 2019. There is a \$20,000,000 cap on the credits.

ASSUMPTION (continued)

In response to a previous version, officials at the **Department of Insurance, Financial Institutions and Professional Registration (DIFP)** assume an unknown reduction of premium tax revenues as a result of the creation of the Show Me Rural Jobs Act tax credit 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 through out 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 also assumes computer programming costs at \$75 an hour for 56.16 hours for a total cost of \$4,212.

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 staffing and duties at substantial costs, DIFP could request funding through the appropriation process.

Officials at the **Office of the State Treasurer, Department of Agriculture** and the **Joint Committee on Administrative Rules** each assume no fiscal impact from this proposal to their respective organizations.

In response to a previous version, 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 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.

ASSUMPTION (continued)

Oversight assumes that qualified recipients cannot redeem the credit until July 1, 2018. Therefore, they will not be able to claim this credit on their taxes until FY 2019. Oversight will show \$0 in FY 17 and 18 and up to the \$20,000,000 cap in FY 2019.

Oversight assumes there is a \$5,000 application fee submitted by qualified companies that is deposited into the Show Me Rural Jobs fund. We are unable to calculate the number of companies that may apply for this tax credit, therefore, Oversight will show the income into the Show Me Rural Jobs fund as Unknown.

Oversight assumes the income into the Show Me Rural Jobs fund will be used for the administration of the fund. Oversight assumes the income and costs to this fund will net to zero and will show the net fiscal impact to this fund as zero.

<u>FISCAL IMPACT - State Government</u>	FY 2017 (10 Mo.)	FY 2018	FY 2019
GENERAL REVENUE			
<u>Cost</u> - DOR - computer programming	(\$25,191)	\$0	\$0
<u>Cost</u> - DOR - integrated tax system changes	(\$43,664)	\$0	\$0
<u>Revenue Reduction</u> - creation of tax credit §620.1954	<u>\$0</u>	<u>\$0</u>	<u>(Up to \$20,000,000)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE	(\$68,855)	\$0	(Up to \$20,000,000)

SHOW ME RURAL JOBS FUND

<u>Income</u> - \$5,000 application fee (\$620.1953.1(7))	Unknown	Unknown	Unknown
<u>Cost</u> -DED			
Personal Service	(\$35,240)	(\$42,711)	(\$43,138)
Fringe Benefits	(\$18,038)	(\$21,761)	(\$21,877)
Equipment and Expenses	<u>(\$6,680)</u>	<u>(\$370)</u>	<u>(\$379)</u>
<u>Total Cost - DED</u>	<u>(\$59,958)</u>	<u>(\$64,842)</u>	<u>(\$35,394)</u>
Total FTE Change - DED	1 FTE	1 FTE	1 FTE

ESTIMATED NET EFFECT ON SHOW ME RURAL JOBS FUND

Estimated Net FTE Change on Show Me			
Rural Jobs Fund	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 2017
(10 Mo.)

FY 2018

FY 2019

\$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

This bill establishes the Show Me Rural Jobs Act. Beginning October 1, 2016, the Department of Agriculture will accept and review applications for approved investment companies that invest in rural business concerns. Applications must include the amount of growth capital the applicant is seeking and a \$5,000 application fee to be deposited into the newly created "Show Me Rural Jobs Fund" to be used solely for the administration of the Show Me Rural Jobs Act. The bill requires growth capital to be comprised of 60% or less credit-eligible capital contribution and 40% or more cash investments. The bill lists other information that must be included such as evidence that the applicant meets certain criteria and information on the potential benefit to the state. For the credit-eligible capital contributions, each investor must submit an affidavit stating a commitment to make the contribution and the amount.

The department must make an application determination within 30 days of receipt of the application in the order received. The department can approve up to \$166,666,667 in growth capital and up to \$100 million in credit-eligible capital contributions. The department can deny an application only for certain enumerated reasons and an applicant has a chance to provide additional information to cure any defect in the application that led to denial. Upon approval, the department will provide written notice to the applicant with the amount of growth capital and a tax credit certificate for each investor whose affidavit was attached. Within 60 days of the notice of approval, the approved investment company can collect the credit-eligible capital contributions from the investors who signed affidavits and one or more cash investments that will compose the remaining amount of growth capital. Within 65 days, the approved investment company will provide the Department of Economic Development with documentation that the amounts have been collected. If the company fails to comply, the Department of Economic Development shall award lapsed growth capital to each approved investment company that received less than it requested. Any remaining capital may be awarded to newly approved companies.

FISCAL DESCRIPTION (continued)

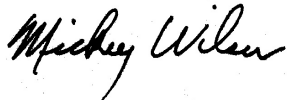
The bill authorizes a tax credit for taxpayers for capital contributions to an approved investment company. The tax credit cannot be refunded, transferred, or sold, but can be allocated to an affiliate or carried forward up to 5 years. The taxpayer may claim up to 20% of the credit for each year after July 1, 2018. The total amount of tax credits authorized cannot exceed \$20 million annually.

The Department of Economic Development shall revoke tax credit certificates issued under this bill in several situations depending on the approved investment company's actions. The Department of Economic Development must provide notice to the approved investment company before revoking the tax credit certificates and the company has 90 days to correct any violations to avoid revocation. If the tax credit certificates are revoked, they no longer count toward the limits above and may be reallocated. After 5 years an approved investment company may leave the program. If state and local tax revenues fall short of the amount anticipated in the application, the state may recover a percentage of the distributions. Each approved investment company must submit a report to the departments of Agriculture and Economic Development roughly two years after it collects the total growth investment. This report must contain specific information. After that, the approved investment company must submit an annual report each April.

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
Office of the State Treasurer
Department of Agriculture
Department of Revenue
Office of Administration's Division of Budget and Planning
Department of Insurance, Financial Institutions, and Professional Registration
Office of the Secretary of State
Joint Committee on Administrative Rules

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

Mickey Wilson, CPA
Director
April 6, 2016

Ross Strobe
Assistant Director
April 6, 2016