

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 1353-01  
Bill No.: HB 560  
Subject: Tax Credits, Taxation and Revenue - General, Taxation and Revenue - Income,  
Business and Commerce  
Type: Original  
Date: January 28, 2019

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Bill Summary: This proposal modifies provisions relating to the New or Expanded  
Business Facility Tax Credit.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
<b>FUND AFFECTED</b>	<b>FY 2020</b>	<b>FY 2021</b>	<b>FY 2022</b>
General Revenue	(\$21,600,000)	(\$21,600,000)	(\$21,600,000)
<b>Total Estimated Net Effect on General Revenue</b>	<b>(\$21,600,000)</b>	<b>(\$21,600,000)</b>	<b>(\$21,600,000)</b>

**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.

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2020</b>	<b>FY 2021</b>	<b>FY 2022</b>
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: ( ) indicate costs or losses.

This fiscal note contains 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</b>

☒ 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 2020	FY 2021	FY 2022
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

## FISCAL ANALYSIS

### ASSUMPTION

Officials of the **Department of Economic Development (DED)** assume this legislation modifies the Business Facility Tax Credit by amending the definition of New Business Facility Investment under 135.100 to remove the requirement that it be "real and depreciable tangible personal property" and adds that it can be the purchase, lease, or license of software and hardware.

It allows the company to get eight times the amount of the license. The statute is written for a specific company that tried to get this amount previously but was denied because a software license is not real and depreciable personal property. This company will have at least 9 projects over the next 15 years. The statute sunsets in 2025 and the company will get 10 years of benefits after the last year the project is approved. The amount that they would have gotten for the first project is \$36 million over 10 years. Assuming they do all 9 projects and do the same software purchases at each location, that is a cost of \$324 million to the state over 15 years, for a cost of \$21,600,000 per year.

Office of the **Office of Administration Division of Budget and Planning (B&P)** assume this proposal expands the types of businesses eligible for the Business Facility Tax Credit. To the extent businesses qualify for additional tax credits, this proposal could impact General and Total State Revenues by an unknown amount and the calculation pursuant to Article X, Section 18(e). Additionally, to the extent this proposal encourages other economic activity, General and Total State Revenue may increase, but B&P cannot estimate the induced revenues.

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

Office of the **Department of Insurance, Financial Institutions and Professional Registration** assume a potential unknown decrease of premium tax revenues may occur as a result of the changes to the Expanded Business Facility tax credit. 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.

ASSUMPTION (continued)

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

	FY 2016	FY 2017	FY 2018	FY 2019 (projected)	FY 2020 (projected)
Certificates Issued	10	7	8	9	10
Projects	10	7	8	9	10
Amount Authorized	\$4,778,641	\$8,044,858	\$8,762,244	\$9,993,516	\$11,242,705
Amount Issued	\$4,778,641	\$8,044,858	\$8,762,244	\$9,993,516	\$11,242,705
Amount Redeemed	\$4,593,362	\$4,046,742	\$6,329,689	\$6,895,526	\$7,757,466

Amount Outstanding - \$8,672,825      Amount Authorized but Unissued - not declared

**Oversight** notes that the New and Expanded Business Facility Credit program awards credits from \$75 to \$125 per job (for a new company) and per \$100,000 of new investment each year for 10 years. The program has no cap. Oversight also notes that if a company meets the requirements and receives the credits, the state could receive positive benefits; however, Oversight assumes these benefits (additional workers hired and business capital expenditures) to be indirect benefits and will not reflect them in the fiscal note.

**Oversight** currently does not have the data or resources available to produce independent revenue projections, therefore Oversight uses the same assumptions for revenue growth as the FY 2020 Consensus Revenue Estimate (CRE) for revenue growth in all future years. The CRE assumes an increase in net general revenue collections of \$192.6 million for FY 2020.

**Oversight** notes pursuant to §143.011 - §143.022 (SBs 509 & 496 2014) if the previous fiscal year's net general revenue collections exceed the highest net general revenue collections of the three previous fiscal years by at least \$150 million, then there will be a reduction in the individual income tax rate by one-tenth of a percent and a reduction for individual income tax filers of 5% of "business income." These reductions will reduce net General Revenue collections by an estimated \$160.0 million annually. Oversight notes the proposed legislation may impact future net revenue collections and could impact future triggering of the rate reductions required under §143.011 - §143.022.

<u>FISCAL IMPACT - State Government</u>	FY 2020 (10 Mo.)	FY 2021	FY 2022
<b>GENERAL REVENUE</b>			
<u>Revenue Reduction</u> - DOR §135.100 - expansion of the New Business Facility tax credit	<u>(\$21,600,000)</u>	<u>(\$21,600,000)</u>	<u>(\$21,600,000)</u>
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE</b>	<b><u>(\$21,600,000)</u></b>	<b><u>(\$21,600,000)</u></b>	<b><u>(\$21,600,000)</u></b>

**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.**

<u>FISCAL IMPACT - Local Government</u>	FY 2020 (10 Mo.)	FY 2021	FY 2022
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

Small businesses that qualify for the tax credit could be impacted.

FISCAL DESCRIPTION

Currently, only the value of real and depreciable personal property is included in the definition of "new business facility investment" for the New or Expanded Business Facility Tax Credit authorized under Sections 135.100 to 135.150, RSMo. This bill changes the definition of "new business facility investment" to include property that may be acquired by the taxpayer by purchase, lease, or license, including the right to use software and hardware via on-demand network access to a shared pool of configurable computing resources as long as the rights are used at the new business facility.

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  
Department of Insurance, Financial Institutions and Professional Registration  
Department of Revenue  
Office of Administration Division of Budget and Planning

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January 28, 2019



Ross Strobe  
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January 28, 2019