HCS#2 SS SCS SB 718 -- TAX INCENTIVES FOR BUSINESS DEVELOPMENT

SPONSOR: Kennedy (Pearce)

COMMITTEE ACTION: Voted "do pass" by the Special Committee on Job Creation and Economic Development by a vote of 10 to 0.

This substitute changes the laws regarding tax incentives for business development.

VARIOUS TAX CREDIT PROGRAMS

The substitute:

(1) Increases the annual cap on the amount of tax credits the Department of Economic Development may authorize for the Enhanced Enterprise Zone Program from $14 million to $24 million;

(2) Increases the fiscal year cap for economic development tax credits that are approved as part of the Neighborhood Assistance Program from $4 million to $6 million;

(3) Allows the department to authorize up to $5 million in tax credits per year to encourage equity investment in technology-based early stage Missouri companies, commonly referred to as angel investments. Investors who contribute the first $500,000 in equity investment to a qualified Missouri business may be issued a tax credit equal to 30% of the investment or 40% if the qualified business is in a rural area or distressed community. An investor can receive a credit of up to $50,000 for an investment in a single qualified business and up to $100,000 for investments in more than one qualified business per year. Credits can be carried forward for up to three years or sold;

(4) Increases the aggregate cap on the amount of tax credits the department may authorize for the Small Business Incubators Program from $500,000 to $2 million;

(5) Specifies that all demolition activities are part of remediation and allows remediation tax credits to include up to 100% of demolition costs that are not directly part of the remediation but which are necessary to accomplish the planned use of the facility. Demolition may occur on adjacent property that independently qualifies as abandoned or underutilized and is located in a municipality with fewer than 20,000 residents. Currently, some demolition activities associated with brownfield redevelopment are separate from remediation activities;

(6) Allows an existing headquarters to receive the tax credit for new or expanded business facilities for expansions done

before January 1, 2018. At least 25 new employees and at least $1 million in new investment must be attributed to the expansion. Buildings on multiple, non-contiguous property will be considered one facility if the buildings are within five miles of each other;

(7) Increases the amount of tax credits available for taxpayers who modify their home to be accessible for a disabled individual who resides with the taxpayer. Currently, up to $100,000 in tax credits from the Rebuilding Communities Tax Credit Program can be used for this purpose. The substitute allows all unused tax credits from this program to be used by taxpayers who modify their homes for this purpose. The cap on the program will be $10 million annually; and

(8) Allows certain municipal library districts which have transferred a structure at least 72 years old to a nonprofit entity for rehabilitation to be deemed a corporation and a for-profit entity for the purposes of the Historic Preservation Tax Credit Program.

TAX CREDIT FOR QUALIFIED RESEARCH EXPENSES

Currently, no tax credits for qualified research expenses can be approved, awarded, or issued. The substitute removes these restrictions and allows a tax credit equal to no more than 6.5% of a taxpayer's qualified research expenses. The annual aggregate cap on the amount of these tax credits that can be authorized by the department is $10 million.

Qualified research expenses will be limited to those incurred in the research and development of agricultural biotechnology, plant genomics products, diagnostic and therapeutic medical devices, and prescription pharmaceuticals consumed by humans or animals. Expenses incurred in the research, development, and manufacturing of power system technology for aerospace, space, defense, or implantable or wearable medical devices are also permitted.

The department director may allow a taxpayer to transfer up to 40% of the tax credits issued, but not yet claimed, between January 1, 2009, and December 31, 2015. The substitute requires the credits to be issued and the department director to act on tax credit applications filed between January 1 and July 1 for claims for the previous year between August 1 and August 15.

The formula is specified by which tax credits will be issued if the eligible claims for the credits exceed the annual cap. No one taxpayer can be issued more than 30% of the total amount of tax credits authorized in any calendar year.

QUALITY JOBS PROGRAM

The substitute:

(1) Eliminates the cap on the Quality Jobs Program. Currently, the department cannot issue more than $40 million in tax credits for this program annually;

(2) Allows tax credits to be issued for job retention projects until August 30, 2013. Tax credits for this project type were only authorized through August 30, 2007;

(3) Allows a project facility to include separate buildings within the same county. Currently, the buildings must be located within one mile of each other; and

(4) Allows a company that leases or owns facilities that produce electricity derived from qualified renewable energy sources or produce fuel for the generation of electricity from qualified renewable energy sources to participate in the program as a technology business project if it meets the other requirements of the program. Qualified renewable energy sources include open-looped biomass, close-looped biomass, solar, wind, geothermal, and hydropower but not ethanol distillation or production or biodiesel production.

COMMUNITY IMPROVEMENT DISTRICTS

The substitute:

(1) Allows community improvement districts (CID) to exist in special business districts within the City of St. Louis. Currently, any CID in St. Louis that is also in a special business district cannot levy a CID sales tax unless special assessments imposed on real property or businesses within the special business district are repealed; and

(2) Excludes sales by public utilities and providers of communications, cable, or video services from the CID sales tax.

TAX POLICY AND TAXATION

The substitute:

(1) Authorizes the department to issue letter rulings regarding the New Markets Tax Credit Program. The letter rulings are binding in a court of law and must be issued within 60 days of a request. The department can refuse to issue the letter ruling for good cause, but must explain the reason for refusal. Letter rulings are closed to the public; however, information can be

released as long as anything which would identify the applicant or is otherwise protected is redacted;

(2) Establishes in statute an exemption from state and local sales and use tax on all tangible personal property included on the United States munitions list that is sold to or purchased by a foreign government for a governmental purpose. Currently, this exemption is granted by the Department of Revenue through a letter ruling;

(3) Specifies that the true value in money for assessment purposes of any possessory interest in real property located on or within the ultimate airport boundary shown by a federal airport layout plan of the Kansas City International Airport will be the true value in money of the possessory interest in the real property less the total costs paid toward any new construction or improvements completed on the property after January 1, 2008, if included in the possessory interest, unless paid by the political subdivision, regardless of the year the costs were incurred;

(4) Authorizes a property tax credit, beginning January 1, 2009, for expenses incurred to manufacture, maintain, or improve a freight line company's qualified rolling stock up to the amount of its tax liability. The state will annually reimburse a political subdivision for any loss in revenue;

(5) Expands the state and local sales tax exemption to include materials, replacement parts, and equipment purchased for use directly upon and for the modification, repair, replacement, and maintenance of aircraft, aircraft power plants, and aircraft accessories from January 1, 2009, to January 1, 2015. Currently, materials, replacement parts, and equipment purchased for use directly upon and for the repair and maintenance or manufacture of aircraft engaged as common carriers of people or property are exempt from state and local sales tax; and

(6) Revises the definition of "commercial aircraft" as it relates to the taxation of aircraft by lowering the maximum certified gross take-off weight from 7,000 to 3,000 pounds.

The substitute contains an emergency clause for the provisions regarding the Small Business Incubators Program.

FISCAL NOTE: Estimated Cost on General Revenue Fund of $261,869 to Unknown in FY 2009, $281,658 to Unknown in FY 2010, and $290,109 to Unknown in FY 2011. Estimated Cost on Other State Funds of Unknown in FY 2009, FY 2010, and FY 2011.

PROPONENTS: Supporters say that the bill will increase the annual caps on several tremendously successful programs. The

Quality Jobs Program is one of the most useful economic development tools the state has, attracting new jobs and encouraging job growth in Missouri. Missouri does a very good job of receiving federal research dollars, but has not been good at transitioning this research into creating patents or products, which in turn create new jobs. The program will encourage more patent and product development. The substitute bill codifies an existing sales and use tax exemption regarding the sale of aircraft to foreign countries. The tax credits for mega-projects will lead to the biggest economic development project in Missouri history. A Canadian company, Bombardier, is considering building an assembly plant at the Kansas City International Airport to manufacture the new C-Series aircraft. It will bring in more than 1,000 jobs to the site and thousands more in related industries. This is a once-in-a-lifetime opportunity for Missouri, and the substitute bill is necessary to make it happen. This program is unique because it requires Bombardier to pay the state a fee for each aircraft sold. This will repay the state's tax credits, resulting in an overall positive net impact for Missouri. However, if Bombardier does not choose Missouri for its assembly site, the mega-project tax credit will be in place for future projects. This tool is vital to Missouri's future economic development success with large-scale manufacturing projects. The tax credit for qualified research expenses is a very important program to reinstate because Missouri is poised to become a leader in life sciences research. Businesses, universities, and research institutes engaged in these activities create good jobs, and this program will encourage them to begin or continue research and development.

Testifying for the bill were Senator Kennedy; Greater Kansas City Chamber of Commerce; St. Louis Regional Chamber and Growth Association; Associated Industries of Missouri; Taxpayers Research Institute of Missouri; Missouri Economic Development Council; National Multiple Sclerosis Society; Boehringer-Ingelheim Pharmaceuticals, Incorporated; Holcim, Incorporated; Kathi Harness, St. Louis Library District; Missouri Biotechnology Association; City of St. Louis; Center for Emerging Technologies; Jim Farrell, Missouri Innovation Centers Network; St. Louis County Economic Council; Johnson County Economic Development Corporation; Midwest Alliance for Renewable Energy; and Missouri Chamber of Commerce and Industry.

OPPONENTS: Those who oppose the substitute bill say that the language pertaining to the mega-project fund poses a fiscal problem to the state.

Testifying against the bill was Rex Sinquefield.

OTHERS: Others testifying on the bill offered informational assistance.

Testifying on the bill was Department of Economic Development.