COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1189-01
Bill No.: HB 507
Subject: Economic Development; Tax Credits; Taxation and Revenue
Type: Original
Date: February 9, 2009

Bill Summary: This proposal creates a tax credit for equity investments in technology-based early stage Missouri companies and removes the annual limit on tax credit issuance for the Quality Jobs Act.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
General Revenue	($66,137) to (Unknown)	($69,905) to (Unknown)	($72,001) to (Unknown)
Total Estimated Net Effect on General Revenue Fund*	**($66,137) to (UNKNOWN)**	**($69,905) to (UNKNOWN)**	**($72,001) to (UNKNOWN)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Total Estimated Net Effect on Other State Funds*	**$0**	**$0**	**$0**

*** The fiscal impact could be divided between the General Revenue Fund and the County Foreign Insurance Fund (which ultimately goes to local school districts) if some of the tax credits are utilized against insurance premium taxes.**

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

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
General Revenue	1 FTE	1 FTE	1 FTE
Total Estimated Net Effect on FTE	**1**	**1**	**1**

☒ Estimated Total Net Effect on All funds expected to exceed $100,000 savings or (cost).

☐ Estimated Net Effect on General Revenue Fund expected to exceed $100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Local Government*	**$0**	**$0**	**$0**

*** The fiscal impact could be divided between the General Revenue Fund and the County Foreign Insurance Fund (which ultimately goes to local school districts) if some of the tax credits are utilized against insurance premium taxes.**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration - Budget and Planning** state the bill proposes a tax credit for investors making equity investments in qualified technology-based early stage Missouri companies. The tax credit is equal to 50% of the investor's equity investment. The tax credit shall not be greater than $250,000 in a single year per investor. The total amount of tax credits available for this program is $6.0 million per year.

This proposal also eliminates the cap for tax credits issued under the Missouri Quality Jobs Act. Currently, the amount of tax credits available for this program is $60 million. DED reports that currently there are no projects that have been unable to receive funding due to the annual limit on the program. Also, DED maintains that the economic benefit of the jobs created under the program will offset any additional costs proposed by this bill.

This proposal could therefore lower general and total state revenues up to $6.0 million. This program may stimulate other economic activity, but BAP does not have data to estimate the induced revenues. DED may have such an estimate.

Officials from the **Department of Economic Development (DED)** assume a positive impact on General Revenue resulting from increases to the Missouri Quality Jobs. DED assumes the Equity Investment Tax Credit will require one person to administer. DED assumes the Equity Investment Tax Credit will cost $6 million per year and be offset by some positive economic benefits to the state.

Over all costs would include one personnel and associated costs. This FTE (Economic Development Incentive Specialist III) would be responsible for the Equity Investment Tax Credit program. The exact number of additional applications expected as a result of removing the cap on Missouri Quality Jobs is unknown. If a significant number of applications are received, additional FTE will be requested through the budget process.

DED has a standard cost established with ITSD to set up a tax credit program for tracking. The costs is estimated at 40 hours with hourly rate of $31.27.

Officials from the **Department of Revenue (DOR)** assume the proposal would not fiscally impact their agency. DOR states that due to Statewide Information Technology Consolidation, DOR’s response to a proposal will now also reflect the cost estimates prepared by OA-IT for impact to the various systems. As a result, the impact shown may not be the same as previous fiscal notes submitted. In addition, if the legislation is Truly Agreed to and Finally Passed the

ASSUMPTION (continued)

OA-IT costs shown will be requested through appropriations by OA-IT.

Office of Administration Information Technology (ITSD DOR) estimates the IT portion of this request can be accomplished within existing resources, however; if priorities shift, additional FTE/overtime would be needed to implement. The Office of Administration Information Technology (ITSD DOR) estimates that this legislation could be implemented utilizing 3 existing CIT III for 1 month for system modifications to MINITS and 3 existing CIT III for 3 months for system modifications to COINS, Café, and E-file. The estimated cost is $53,292.

Officials from the **Department of Insurance, Financial Institutions and Professional Registration (DIFP)** state it is unknown how many insurance companies will choose to participate in this program and take advantage of the tax credits. The department has no means to arrive at a reasonable estimate of loss in premium tax revenue as a result of tax credits. 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.

In response to a similar proposal from this year (SB 45), officials from the **Office of 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 will range the fiscal impact of the tax credits for equity investments in technology-based early stage companies from $0 (no tax credit issuances and/or redemptions) to the annual limit of $6 million. Oversight will also range the fiscal impact of the removal of the annual cap on the Quality Jobs act as $0 to (Unknown).

ASSUMPTION (continued)

Oversight compared the total tax credit issuances relative to the total tax credit redemptions for the previous four years in order to determine a relationship between the two. Oversight discovered that the annual redemptions ranged from 81 percent to 86 percent of the annual issuances. Depending on the program, the redeemed credits may have been issued several years prior and carried forward to the years studied; however, Oversight will utilize an estimated redemption total of 83 percent of tax credits issued. Therefore, under this proposal, if $6,000,000 of credits are issued under the new program, Oversight would assume $4,980,000 (83%) of credits to be redeemed, reducing Total State Revenues.

Oversight assumes there would be some positive economic benefit to the state as a result of the changes in this proposal, however, Oversight considers these benefits to be indirect and therefore, have not reflected them in the fiscal note.

This proposal could reduce Total State Revenues.

FISCAL IMPACT - State Government	FY 2010 (10 Mo.)	FY 2011	FY 2012
GENERAL REVENUE			
Costs - DED			
Personal Service (1 FTE)	($35,803)	($44,252)	($45,580)
Fringe Benefits	($17,411)	($21,520)	($22,166)
Expense and Equipment	($10,421)	($4,133)	($4,255)
ITSD Hours	($2,502)	$0	$0
Total Costs - DED	($66,137)	($69,905)	($72,001)
FTE Changes - DED	1 FTE	1 FTE	1 FTE
Income - DED Per Section 348.274.9, DED may recoup administrative costs	$0 to $66,137	$0 to $69,905	$0 to $72,001
Loss - Tax Credit for equity investments in technology-based early stage Missouri companies (Section 348.274)	$0 to ($6,000,000)	$0 to ($6,000,000)	$0 to ($6,000,000)
Loss - tax credits under the Quality Jobs Act - annual limit of $60 million is removed by this proposal (620.1881)	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND*	**($66,137) to (UNKNOWN)**	**($69,905) to (UNKNOWN)**	**($72,001) to (UNKNOWN)**
Estimated Net FTE Change for General Revenue Fund	1 FTE	1 FTE	1 FTE

*** The fiscal impact could be divided between the General Revenue Fund and the County Foreign Insurance Fund (which ultimately goes to local school districts) if some of the tax credits are utilized against insurance premium taxes.**

FISCAL IMPACT - Local Government	FY 2010 (10 Mo.)	FY 2011	FY 2012
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

Small businesses that qualify for the programs within this bill could be positively impacted as a result of this proposal.

FISCAL DESCRIPTION

This act allows the Department of Economic Development to authorize up to $6 million in tax credits per year to encourage equity investment in technology-based early stage Missouri companies, commonly referred to as angel investments. An investor can receive a credit of up to fifty thousand dollars for an investment in a single qualified business and up to two hundred fifty thousand dollars for investments in more than one qualified business per year. Tax credits for equity investment in technology-based early stage Missouri companies may be carried forward for up to three years or transferred. The act also removes the sixty million dollar annual limitation on tax credit issuance for the Missouri Quality Jobs Act.

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
Office of the Secretary of State
Department of Revenue
Office of Administration - Budget and Planning

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