COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0910-02
Bill No.: HCS for HB 336
Subject: Tax Credits; Entertainment; Sports and Amusements
Type: Original
Date: March 10, 2011

Bill Summary: This proposal creates a tax credit to attract sporting events to the state.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on General Revenue Fund*	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
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 2012	FY 2013	FY 2014
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on FTE	**0**	**0**	**0**

☐ 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 2012	FY 2013	FY 2014
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

In response to the previous version of this legislation, officials at the **Budget and Planning** (**BAP**) assume this proposed legislation should not result in additional costs or savings to BAP. This proposal would allow $10 million in tax credits annually in order to attract sporting events to Missouri. This proposal could therefore lower general and total state revenues up to this amount annually. This proposal may stimulate other economic activity, but BAP does not have data to estimate the induced revenues. The Department of Economic Development may have such an estimate.

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.

DIFP will require minimal contract computer programming to add this new tax credit to the premium tax database and can do so under existing appropriation. However, should multiple bills pass that would require additional updates to the premium tax database, the department may need to request more expense and equipment appropriation through the budget process.

In response to the previous version of this bill, officials at the **Department of Economic Development** (**DED**) assume that the implementation of this tax credit program would result in the need for one additional FTE to administer the program. The FTE would be an Economic Development Incentive Specialist III and would be responsible for reviewing the tax credit applications to make sure they meet the criteria of the program, certifying the project, determining the geographic boundaries of the market area for the event, drafting and sending the tax credit awards and ensuring compliance with the program. The related costs for this FTE include one-time expenditures for systems furniture, a side chair, file cabinet, calculator and telephone and recurring costs for office supplies, computer, professional development and travel.

The cap for this new tax credit is $10 million so there would be a negative impact to total state

ASSUMPTION (continued)

revenue. However, there would be an offset of unknown short-term positive economic benefits as a result of this increase, so the exact amount of the impact cannot be determined.

In response to the previous version of this bill, officials at the **Office of Administration Information Technology Services Division** (**OA-ITSD**) assume the department's response to a proposal similar to or identical to this one in a previous session indicated the department planned to absorb the administrative costs to implement the proposal. Due to budget constraints, reduction of staff and the limitations within the department's tax systems, changes cannot be made without significant impact to the department's resources and budget. Therefore, the IT portion of the fiscal impact is estimated with a level of effort valued at $31,164 which is 1,176 FTE hours.

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

Officials at the **Department of Revenue** (**DOR**) assume the need for two additional FTE to administer the tax credits. Personal Tax would need one Revenue Processing Technician per 6,000 claims, and Corporate / Withholding would need one Revenue Processing Technician per 6,000 additional tax credit redemptions. The cost of these two FTE are anticipated to be roughly $85,000 per year.

Oversight assumes this tax credit is limited in scope, and that the Department of Revenue will not incur the number of credit redemptions (count) that will require additional FTE.

Oversight compared the total tax credit issuances relative to the total tax credit redemptions for the previous three years in order to determine a relationship between the two. Oversight discovered that the annual redemptions ranged from 85 percent to 106 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 95 percent of tax credits issued. Therefore, if $10 million credits are issued, Oversight would assume $9,500,000 credits would be redeemed.

Oversight assumes that per this proposal tax credits would not be issued on sporting events held prior to August 28, 2014. Therefore the fiscal impact of this proposal would occur beginning in FY 2015 which is outside the fiscal note period. Oversight notes that in FY 2015 the impact to

ASSUMPTION (continued)

the General Revenue Fund would be the $10,000,000 cap on the tax credit as well as administrative costs.

Oversight assumes that Department of Economic Development would not need any FTE until FY 2015, which is outside the fiscal note period.

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.

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.

This proposal could reduce Total State Revenues.

FISCAL IMPACT - State Government	FY 2012 (10 Mo.)	FY 2013	FY 2014
	$0	**$0**	**$0**

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FISCAL IMPACT - Local Government	FY 2012 (10 Mo.)	FY 2013	FY 2014
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

Small businesses located within the geographic boundaries of the market area for the sporting event may see an increase in revenue.

FISCAL DESCRIPTION

This bill authorizes an income tax credit for the eligible costs of bringing a sporting event, as specified in the bill, to Missouri. In order to receive the tax credit, the Department of Economic Development must certify the applicant's sporting event support contract between the applicant and a site selection organization. These organizations are specified in the bill and include, but are not limited to, the National Collegiate Athletic Association, the United States Olympic Committee, and the United States Golf Association.

The applicant must submit documentation of the eligible costs within 30 days of the conclusion of the sporting event. Within 60 days of the conclusion of the sporting event, the department, in consultation with the Director of the Department of Revenue, must determine the amount of tax revenues which are directly attributable to the sporting event. Within 60 days of receiving the documentation from the applicant of the eligible costs, the Department of Economic Development must issue a refundable tax credit equal to 100% of the eligible costs or 50% of the increase in tax revenues within the market area which are directly attributable to the sporting event, whichever is less. The tax credit may be transferred, sold, or assigned.

No more than $10 million of these tax credits can be issued by the department in any fiscal year, and no more than $8 million of these tax credits can be issued in any fiscal year for sporting events held in St. Louis City or the counties of St. Louis or Jackson.

A support contract cannot be certified by the department later than six years from the effective date of the bill; however, the department can certify a contract during this six-year period for a sporting event that will be held more than six years from the effective date.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

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SOURCES OF INFORMATION

Budget and Planning
Department of Economic Development
Department of Insurance, Financial Institutions and Professional Registration
Department of Revenue
Office of the Secretary of State

Mickey Wilson, CPA
Director
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