

HCS HB 365, 804 & 805 -- SMALL BUSINESS EXPANSION AND RETENTION
(Ervin)

COMMITTEE OF ORIGIN: Special Committee on Small Business

This substitute changes the laws regarding small business investment tax credits, the Missouri Technology Corporation, and tax exemptions and establishes the Small Business and Entrepreneurial Growth Act and a Regional Economic Development Initiative.

SMALL BUSINESS AND ENTREPRENEURIAL GROWTH ACT

The substitute establishes the Small Business and Entrepreneurial Growth Act for small business employers who expand their business by increasing the number of jobs and meeting certain qualifications. Beginning January 1, 2008, a qualified employer can retain the Missouri withholding tax from the salaries of the newly created jobs for one year; or if the employer pays more than 50% of the cost of the premiums for health insurance for all employees, the withholding tax can be retained for two years.

SMALL BUSINESS INVESTMENT TAX CREDITS

The substitute changes the laws regarding the small business investment tax credit. The substitute:

- (1) Reduces the amount of the tax credit for a qualified investment in a small business from 40% to 30% of the investment, unless the small business is located in a distressed community, in which case the tax credit is reduced from 60% to 40%. A tax credit equal to 40% of an investment made in a small business located in a rural area is allowed. Tax credits will only be issued on investments up to \$100,000;
- (2) Removes the 50% tax credit for investment in a community bank or community development corporation;
- (3) Requires that \$10 million in tax credits be available each fiscal year for qualified investments in small businesses, regardless of the location of the business. Currently, the total amount of tax credits available for qualified investments in Missouri small businesses cannot exceed \$13 million with \$4 million reserved for distressed communities;
- (4) Removes the requirement that \$500,000 be available for tax credits for qualified investments in Missouri small businesses, community banks, or community development corporations from the Neighborhood Assistance Program; and

(5) Prohibits the Department of Economic Development from issuing certificates without the approval of the Small Business Tax Credit Review Committee, which must review and determine the eligibility of all tax credit applications.

MISSOURI TECHNOLOGY CORPORATION

The Missouri Technology Corporation is authorized to issue up to \$10 million in tax credits each fiscal year.

A taxpayer can receive a 30% tax credit for a contribution toward the first \$500,000 in venture capital contributed to a qualifying company or a 40% tax credit if the company is located in a rural area or distressed community.

The corporation can reserve tax credits for taxpayers who contribute the initial \$5 million in venture capital to the company. The tax credit is equal to 30% of the amount invested or 40% if the company is located in a rural area or distressed community.

The reserved tax credits will only be issued to investors who have a net loss of investment within five years of contributing the first \$5 million in venture capital to an approved company.

A taxpayer can receive a 50% tax credit for contributions to a technology commercialization infrastructure project or for expenditures for industrial research conducted at a public research institution or private not-for-profit research institution for a collaborative research project approved by the corporation.

The credits can be used to offset current income taxes, carried over for three consecutive years, or transferred.

A qualifying company that relocates its headquarters out of Missouri, ceases to employ 80% of its employees in Missouri, alters the principal nature of its operations, or divests itself of key assets is required to repay the state for the tax credits issued to its contributors.

TAX EXEMPTIONS

The substitute authorizes an exemption from sales tax for all purchases and leases of tangible personal property by any county, city, incorporated town, or village for industrial development.

An exemption from real property tax for land used as a non-primary commercial service airport or reliever airport as defined by the Federal Aviation Administration is also

authorized.

REGIONAL ECONOMIC DEVELOPMENT INITIATIVE

A Regional Economic Development Initiative is established to promote individual and business investments in economic development other than retail projects within a region through contributions to regional economic development organizations. A regional economic development organization is any legally formed and locally recognized nonprofit organization representing multiple cities or counties with the goal of promoting economic growth for its respective area.

Beginning January 1, 2008, taxpayers will be eligible to receive a tax credit equal to 50% of any amount contributed to a regional economic development organization if the organization's plan has been approved by the Department of Economic Development. In order to receive the tax credit, contributions must be made during the department-approved fundraising time period.

No more than \$12 million of tax credits can be authorized annually and no more than \$36 million for the duration of the program. The tax credit can be used to offset a taxpayer's income tax; corporate franchise tax; financial institutions tax; or bridge, express, and public utilities tax. The tax can be carried forward for five years or sold.

The organization is required to submit an application to the department for tax credit authorization. The requirements of the application, eligible activities, and considerations the department must take into account when reviewing applications are specified. The organization must submit quarterly reports detailing its expenditures and the progress of its project. Within six months of the end of the project, the organization must report its results and submit an audit to the department. If the funds have not been expended in accordance with the approved application or if the project has not been completed, the organization must repay the department an amount equal to the tax credits issued.

The provisions of the substitute regarding the Regional Economic Development Initiative will expire six years from the effective date.

FISCAL NOTE: Estimated Cost on General Revenue Fund of \$185,150 to Unknown in FY 2008, \$233,928 to Unknown in FY 2009, and \$247,616 to Unknown in FY 2010. No impact on Other State Funds in FY 2008, FY 2009, and FY 2010.