

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5245-02
Bill No.: HCS for HB 1370
Subject: Economic Development; Tax Credits; Entertainment; Sports and Amusements
Type: Original
Date: January 26, 2012

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 2013	FY 2014	FY 2015
General Revenue	\$0 or (Up to \$10,060,447)	\$0 or (Up to \$10,065,917)	\$0 or (Up to \$10,066,634)
Total Estimated Net Effect on General Revenue Fund	\$0 or (Up to \$10,060,447)	\$0 or (Up to \$10,065,917)	\$0 or (Up to \$10,066,634)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
Total Estimated Net Effect on <u>Other</u> 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 2013	FY 2014	FY 2015
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
General Revenue	1 FTE	1 FTE	1 FTE
Total Estimated Net Effect on FTE	1 FTE	1 FTE	1 FTE

- 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 2013	FY 2014	FY 2015
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Budget and Planning (BAP)** assume no impact on BAP. However, this proposal would allow \$10 million in tax credits annually, based on ticket sales and eligible event costs, in order to attract sporting events. This proposal could therefore lower General and Total State Revenues up to this amount annually.

This proposal creates a tax credit program, up to \$10 million annually, for eligible donations made to certified sponsors or local organizing committees related to attracting sporting events to Missouri. These agencies would be required to submit payment to the state in an amount equal to 50% of the donation, the equivalent amount of the tax credit. Therefore, this proposal would not directly impact General and Total State Revenues.

Officials at the **Department of Economic Development (DED)** assume their Business Division anticipates 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 (\$40,212) 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, computer, calculator and telephone and recurring costs for professional development and travel. The cap for the new tax credit programs are \$20 million per fiscal year, so there would be an estimated negative impact to total state revenue on this same amount. However, this negative impact would be offset by an unknown short-term positive economic benefit as a result of the increase in economic activity; therefore, we are unable to determine the exact amount of the impact.

Officials at the **Department of Revenue (DOR)** assume the department and ITSD-DOR will need to make programming changes to various tax systems and form changes. DOR's Personal Tax Division assumes the need of one Revenue Processing Technician I per 4,000 credits claimed. Additionally, DOR's Corporate Division assumes the need of one Revenue Processing Technical I per 6,000 additional tax credit redemptions.

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. If this proposal created a significant unanticipated increase in the DOR workload, or if multiple such proposals were implemented, resources could be requested through the budget process.

ASSUMPTION (continued)

Officials at the **Joint Committee on Administrative Rules** assume that there is no fiscal impact from this proposal.

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.

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.

ASSUMPTION (continued)

Oversight will range the fiscal impact of the programs from \$0 (no additional tax credits would be issued) to the annual limit of \$10 million for the promotional tax credits. **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. For fiscal note purposes only, **Oversight** will not indicate any impact for the pre-purchase form of tax credits.

<u>FISCAL IMPACT - State Government</u>	FY 2013 (10 Mo.)	FY 2014	FY 2015
GENERAL REVENUE			
<u>Revenue Reduction</u> - Tax credit for attracting sporting events to Missouri (67.3000)	\$0 to (Up to \$10,000,000)	\$0 to (Up to \$10,000,000)	\$0 to (Up to \$10,000,000)
<u>Cost</u> - Dept Economic Development			
Personal Service (1 FTE)	(\$33,510)	(\$40,614)	(\$41,020)
Fringe Benefits	(\$17,740)	(\$21,501)	(\$21,716)
Equipment and Expense	(\$9,197)	(\$3,802)	(\$3,898)
<u>Total Cost</u> - DED (Section 67.3000)	<u>(\$60,447)</u>	<u>(\$65,917)</u>	<u>(\$66,634)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>\$0 or (Up to \$10,060,447)</u>	<u>\$0 or (Up to \$10,065,917)</u>	<u>\$0 or (Up to \$10,066,634)</u>
Estimated Net FTE Change on General Revenue	1 FTE	1 FTE	1 FTE
 <u>FISCAL IMPACT - Local Government</u>	 FY 2013 (10 Mo.)	 FY 2014	 FY 2015
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

Small businesses could see an increase in revenue due to more sporting events in the State.

FISCAL DESCRIPTION

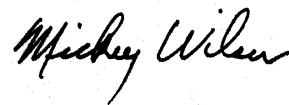
The act creates a refundable income and financial institutions tax credit which may be available for sports commissions, convention and visitors bureaus, certain nonprofit organizations, counties, and municipalities to offset expenses incurred in attracting sporting events to the state. Applicants for the tax credit must submit game support contracts to the Department of Economic Development for approval. The tax credit will be equal to the lesser of five dollars for each admission ticket sold for the event or one hundred percent of eligible expenses incurred. No more than ten million dollars in tax credits may be issued per fiscal year.

The act also creates an income, financial institutions, and corporate franchise tax credit equal to fifty percent of the amount of an eligible donation made, on or after January 1, 2012, to a certified sponsor or local organizing committee for the purposes of attracting sporting events to the state. The tax credit may not be applied against withholding taxes. Certified sponsors and local organizing committees may apply to the Department of Economic Development for the tax credits. Applications for tax credits must be accompanied by payment in an amount equal to the tax credits requested. The Department of Economic Development is prohibited from issuing more than ten million dollars in tax credits each fiscal year.

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

Budget and Planning
Department of Economic Development
Department of Insurance, Financial Institutions and Professional Registration
Department of Revenue
Joint Committee on Administrative Rules
Office of the Secretary of State



Mickey Wilson, CPA

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