COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 6194-01
Bill No.: HB 1985
Subject: Tax Credits; Economic Development Department; Natural Resources Department
Type: Original
Date: April 3, 2012

Bill Summary: This proposal modifies provisions in the Missouri tax credit programs.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
General Revenue	Unknown	Unknown greater than $30,000,000	Unknown greater than $30,000,000
Total Estimated Net Effect on General Revenue Fund	**$0**	**Unknown greater than $30,000,000**	**Unknown greater than $30,000,000**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 8 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
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 2013	FY 2014	FY 2015
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Budget and Planning** (**BAP**) assume this proposal allows any administering agency to recapture tax credits in the event a recipient does not comply with program requirements. This proposal may increase General and Total State Revenues by an unknown amount.

This proposal also reduces the annual cap on Historic Tax Credits from $140 million to $110 million, beginning with FY14. This cap does not apply to projects receiving less than $275,000 in tax credits. Authorizations under this program averaged $131.4 million over FY's 2009-2011. Based on prior redemption patterns, the cap of $110 million created in this proposal will increase General and Total State Revenues by $0.7 million in FY14, $3.1 million in FY14, and $7.9 million in FY15, with increasing amounts in subsequent years. This proposal may reduce other economic activity, but BAP does not have data to estimate the induced revenue impact.

This proposal also:

Specifies that qualifying applicants shall, instead of may, receive credits.
Reduces the per-project cap to $125,000 in credits on certain residential projects.
Reduces the carry-forward period to 5 years, and the carry-back to 1 year.
Prevents the stacking of Historic credits with certain LIHTC credits.
Specifies the extent accrued developer's fees shall be eligible for credits.
Other administrative changes.

These changes will have unknown impacts on General and Total State Revenues.

Oversight assumes this proposal allows for the recapture of tax credits. Oversight will show an Unknown savings to the state from the recapture of tax credits.

Officials at the **Department of Economic Development** (**DED**) assume this proposal revises the Historic Preservation Tax Credit program administered by BCS and reduces the annual cap from $140 million to $110 million starting July 1, 2013 (FY2014). Final applications would be required to include a cost and expenses certification, prepared by a licensed certified public accountant and would require DED to determine the final amount of eligible costs and expenses within 45 days. Specifically, the proposal adds subsection 10 which allows taxpayers to appeal any official decision, including all preliminary and final approvals and denials of approvals made by the DED or DNR regarding the Historic Preservation program, and allows them to submit their appeal to an independent third party appeals officer designated by DED.

ASSUMPTION (continued)

Due to the anticipated amount of administration involved the DED would require three additional FTE's to administer the program. Two FTE would be Accountant III positions responsible for reviewing the final applications for the program to determine eligibility of expenses to make sure they meet the criteria of the program within the 45 day requirement. The third FTE would be an Economic Development Incentive Specialist III responsible for reviewing the tax credit appeal documents as submitted by the taxpayer and appeals officer, reviewing original application materials, responding to requests for information in regards to the appeals request, and attending meetings as needed.

DED assumes an unknown positive fiscal impact in excess of $100,000 due to the lower annual tax credit cap. This positive impact will be offset by an unknown negative impact.

Oversight assumes this proposal requires DED to establish rules for this program and application process by January 1, 2013. Oversight assumes that the rules would specifically identify the format of the information required to be supplied by the certified public accountant. Therefore, DED would be able to review the information submitted quickly and not need FTE to handle an extensive review.

Oversight assumes that it is unclear how many taxpayers would request an appeal. Oversight assumes that DED can absorb the duties of this proposal with existing resources. Should DED experience a measurable increase in its workload as a direct result of this proposal then DED could request additional FTE in future budget requests.

Officials at the **Department of Natural Resources** (**DNR**) assume this proposal allows for an appeals process where taxpayers or authorized representatives to appeal any official decision including all preliminary and final approvals or denial of approvals made by the Department of Economic Development or the Department of Natural Resources. Legislation allows DNR to submit a written response to the appeal and allows DNR to appear at meetings with the appeals officer. The department is unable to estimate the number of appeals that may occur, therefore fiscal impact is unknown.

Oversight assumes that it is unclear how many taxpayers would request an appeal. Oversight assumes that DNR can absorb the duties of this proposal with existing resources. Should DNR experience a measurable increase in its workload as a direct result of this proposal then DNR could request additional resources in future budget requests.

ASSUMPTION (continued)

Oversight assumes this proposal reduces the cap of the program from $140 million to $110 million beginning in FY 2014. Oversight will show the projected net increase in revenue as $30 million annually.

Oversight assumes this proposal prohibits the stacking of historic preservation tax credits with low-income housing tax credits. Therefore, Oversight assumes the proposed changes could result in a reduced amount of tax credits being issued in future fiscal years. Oversight will show a projected increase in net revenues as being Unknown.

Officials at the **Department of Agriculture**, **Department of Revenue**, **Department of Social Services** and the **Missouri Housing Development Commission** assume 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.

FISCAL IMPACT - State Government	FY 2013 (10 Mo.)	FY 2014	FY 2015
GENERAL REVENUE			
Savings - recapture of tax credits	Unknown	Unknown	Unknown
Revenue Increase - prohibits the stacking of tax credits	Unknown	Unknown	Unknown
Revenue Increase - decreasing the cap on the historic preservation tax credit	$0	$30,000,000	$30,000,000
ESTIMATED NET EFFECT ON GENERAL REVENUE	**Unknown**	**Unknown greater than $30,000,000**	**Unknown greater than $30,000,000**

FISCAL IMPACT - Local Government	FY 2013 (10 Mo.)	FY 2014	FY 2015
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

For each fiscal year beginning on or after July 1, 2013, this bill limits to $110 million the total amount of applications that the Department of Economic Development can approve for the Historic Structures Rehabilitation Tax Credit. For all applications for credits approved on or after July 1, 2013, no more than $125,000 may be issued for the eligible costs and expenses incurred in the rehabilitation of certain eligible owner-occupied residential property. For all credits authorized on or after July 1, 2013, the bill reduces from three years to one year the time period that the credit can be carried back and from 10 years to five years the time period that the credit can be carried forward. A taxpayer who receives a low-income housing tax credit for a project not financed through tax-exempt bonds issuance cannot be eligible for a historic preservation tax credit for the same project. An application for the final approval and issuance of a tax credit must include a cost and expense certification by an independent licensed certified public accountant with any accrued developer fees stated separately. The department will have

FISCAL DESCRIPTION (continued)

45 days from receipt of the application for final approval to determine whether the completed project meets the required standards and to issue a tax credit certificate equal to 75% of the eligible costs and expenses verified to that date or the amount of tax credits approved for the project. Within 120 days following the receipt, the department must determine the final amount of eligible rehabilitation costs and expenses. If a taxpayer receives a tax credit that includes an amount attributable to accrued developer fees, he or she must submit within six years of completion of the rehabilitation an additional cost and expense certification verifying the total amount of developer fees actually accrued and paid. If the amount of the tax credits issued and attributable to developer fees exceeds the amount of developer fees actually accrued and paid, the taxpayer is liable to repay 25% of the excess. A taxpayer, or his or her authorized representative, may appeal any official decision on a preliminary or final approval and denial of approval to an independent third-party appeals officer designated by the department.

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 Agriculture
Department of Economic Development
Department of Insurance, Financial Institutions and Professional Registration
Department of Natural Resources
Department of Revenue
Department of Social Services
Missouri Housing Development Commission

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Director
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