COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0647-02
Bill No.: Perfected (With An Effective Date) HCS for HB 110
Subject: Tax Credits; Economic Development, Department of
Type: Original
Date: April 20, 2015

Bill Summary: This proposal authorizes three new tax credits for port facilities.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2016	FY 2017	FY 2018	FY 2019
General Revenue	$0	($37,460)	($60,474) to ($18,060,474)	($61,137 to $6,061,137)
Total Estimated Net Effect on General Revenue	**$0**	**($37,460)**	**($60,474) to ($18,060,474)**	**($61,137 to $6,061,137)**

Note: The fiscal note does not reflect the possibility that some of the tax credits could be utilized by insurance companies against insurance premium taxes. If this occurs, the loss in tax revenue would be split between the General Revenue Fund and the County Foreign Insurance Fund, which ultimately goes to local school districts.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2016	FY 2017	FY 2018	FY 2019
Total Estimated Net Effect on Other State Funds	**$0**	**$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 2016	FY 2017	FY 2018	FY 2019
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)				
FUND AFFECTED	FY 2016	FY 2017	FY 2018	FY 2019
General Revenue	0 FTE	1 FTE	1 FTE	1 FTE
Total Estimated Net Effect on FTE	**0 FTE**	**1 FTE**	**1 FTE**	**1 FTE**

☒ Estimated Net Effect (expenditures or reduced revenues) expected to exceed $100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS				
FUND AFFECTED	FY 2016	FY 2017	FY 2018	FY 2019
Local Government	**$0**	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Office of Administration's Division of Budget and Planning** assume this proposal creates three new tax credits for port authorities that total $6 million annually. This proposal could therefore lower total state revenues by that amount, and could impact the calculation under Article X, Section 18(e).

House Committee Amendment 3 delays the effective date of this legislation until January 1, 2017, but does not further amend the original provisions allowing firms to be eligible for credits beginning January 1, 2015. These tax credits may offset Tax Year 2015-2020 liabilities; therefore, General and Total State Revenues may be reduced as early as FY 2018.

Officials at the **Department of Economic Development** (**DED**) assume a negative fiscal impact ranging from $0 to $6 million; however, this negative impact may be offset by an unknown positive economic benefit as a result of the increase in economic activity. DED requests an Economic Development Incentive Specialist I to review applications, determine eligibility, and promulgate rules for the programs.

Oversight assumes the creation of the three programs outlined in this proposal may have a positive impact on the state. However, Oversight considers this to be indirect impact of the proposal and will not reflect it in this fiscal note.

Officials at the **Department of Revenue** (**DOR**) assume §135.1662 allows taxpayers engaged in manufacturing goods or distributing manufactured goods using port facilities that increase their port cargo by at least five percent to be eligible to claim a credit against taxes under chapter 143. A "major facility" is eligible for the credit without an increase in port cargo volume. DOR may require the certification form issued by the port authority to accompany the return. Tax credits in this section cannot exceed $3.5 million in any calendar year.

§135.1664 allows an international trade facility a credit against taxes under chapter 143, excluding withholding tax, for $25 TEU (20-foot equivalent unit) or 16 tons of non-containerized cargo moved by barge or rail rather than truck or other motor vehicle. The maximum credit in a given fiscal year is $2 million.

§135.1666 allows a taxpayer meeting the requirements of this section a credit against taxes under chapter 143 of $3,500 per qualified full-time employee that results from increased qualified trade activities or two percent of the capital investment made by the taxpayer to facilitate the increased qualified trade activities. Tax credits under this section cannot exceed $500,000 in any fiscal year.

ASSUMPTION (continued)

Section B: The provisions of this act become effective January 1, 2017.

Personal Tax requires two (2) Revenue Processing Technicians I due to increased tax credits claimed and increased correspondence.

Corporate Tax has taken on the post-issuance tax credit duties per Executive Order 13-02 including transfers, HPC Developer Fee payment validation, and Senate Bill 1099 compliance notices/correspondence. This will require three (3) Revenue Processing Technicians I due to increased tax credits redemptions, compliance mailings, correspondence, and tax credit transfers. This legislation will also require form changes and programming support associated with credit entry and new notices.

The legislation does not implement the three credits in the legacy Individual and Corporate income tax systems with an effective date of January 2017. However, the new integrated tax system may be impacted.

Oversight assumes DOR's Personal and Corporate Tax Divisions could absorb the responsibilities of these tax credits with existing resources. Should DOR experience the number of additional tax credit redemptions to justify another FTE, they could seek that FTE through the appropriation process.

Officials at the **Department of Insurance, Financial Institutions, and Professional Registration** (**DIFP**) assume an unknown reduction of premium tax revenues as a result of the creation of the international trade facility tax credits is possible. The tax credits may be carried forward for five to ten years therefore some tax credits would be able to be taken until FY 2031. 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 assumes a trail of tax credits issuance, changes, and balances are to be captured within current electronic tax credit systems. No new hardware or software purchases are expected. Contract labor is required at an estimated cost of $4,212.

Oversight assumes 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, ASSUMPTION (continued)

should multiple bills pass that would require additional updates to the premium tax database, the department could request more expense and equipment appropriation through the budget process.

Officials at the **Joint Committee on Administrative Rules** assume no fiscal impact from this proposal to their organization.

In response to a previous version, officials at the **Department of Transportation** assume no fiscal impact from this proposal to their organization.

In response to a previous version, 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.

Oversight notes the new effective date of this proposal is January 1, 2017. Qualifying companies could not apply these tax credits towards their tax return until FY 2018.

Oversight notes this proposal has an annual cap of $6,000,000.

Oversight notes the proposal states for taxable years beginning on or after January 1, 2015, a taxpayer satisfying the requirements of these sections (§135.1662, §135.1664, §135.1666) shall be allowed to claim a tax credit against the taxpayer's state tax liability. Oversight assumes that qualifying companies would be able to amend their 2015 and 2016 tax returns to claim these tax credits. Therefore, Oversight will show the fiscal impact in FY 2018 of $0 (no tax credits issued) to $18,000,000 ($6,000,000 for CY2015, $6,000,000 for CY2016, and $6,000,000 for CY2017).

FISCAL IMPACT - State Government	FY 2016	FY 2017 (6 Mos.)	FY 2018	FY 2019
GENERAL REVENUE				
Revenue Reduction - §135.1662 tax credit for increased cargo volume	$0	$0	$0 to ($10,500,000)	$0 to ($3,500,000)
Revenue Reduction - §135.1664 tax credit for international trade facility	$0	$0	$0 to ($6,000,000)	$0 to ($2,000,000)
Revenue Reduction - §135.1666 tax credit for increased qualified trade	$0	$0	$0 to ($1,500,000)	$0 to ($500,000)
Costs - Department of Economic Development				
Personal Service	$0	($18,447)	($37,262)	($37,635)
Fringe Benefits	$0	($9,593)	($19,378)	($19,572)
Equipment and Expenses	$0	($9,420)	($3,834)	($3,930)
Total Costs - DED	$0	($37,460)	($60,474)	($61,137)
FTE Change - DED	0 FTE	1 FTE	1 FTE	1 FTE
ESTIMATED NET EFFECT ON GENERAL REVENUE	**$0**	**($37,460)**	**($60,474) to ($18,060,474)**	**($61,137 to ($6,061,137)**
Estimated Net FTE Change on General Revenue	0 FTE	1 FTE	1 FTE	1 FTE

Note: The fiscal note does not reflect the possibility that some of the tax credits could be utilized by insurance companies against insurance premium taxes. If this occurs, the loss in tax revenue would be split between the General Revenue Fund and the County Foreign Insurance Fund, which ultimately goes to local school districts.

FISCAL IMPACT - Local Government	FY 2016	FY 2017	FY 2018	FY 2019
	$0	**$0**	**$0**	**$0**

FISCAL IMPACT - Small Business

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

SJ:LR:OD

FISCAL DESCRIPTION

This bill creates three new tax credits for port facilities. For all taxable years beginning on January 1, 2017, but before January 1, 2021, a tax credit is authorized against the income tax of a qualifying taxpayer that increases its port cargo volume by a minimum of 5% through a qualifying port. The amount of the tax credit is $50 for each 20 foot equivalent unit or noncontainerized cargo equivalent the taxpayer is over its 2013 base year or the first calendar year of a major facility. A qualifying taxpayer may not receive more than $250,000 unless the total annual amount of the tax credit is not used. The maximum amount that can be issued for all taxpayers in a calendar year is $3.5 million. To claim a tax credit, the taxpayer must own the cargo at the time the port facilities are used. The taxpayer must submit an annual application to the Department of Economic Development by March 1 of the calendar year following the calendar year in which the increase in port cargo volume occurs.

For all taxable years beginning on January 1, 2017, but before January 1, 2021, a tax credit is authorized against the income tax, excluding the withholding tax imposed by Sections 143.191 to 143.265, RSMo, franchise tax, or bank tax of a company that is an international trade facility. The amount of the credit is $25 per 20-foot equivalent unit or 16 tons of noncontainerized cargo moved by barge or rail rather than by trucks or other motor vehicles on the state's highways. The maximum amount of tax credits that can be issued in any fiscal year is $2 million. The international trade facility must apply and be approved by the department to claim the credit. Unused credits may be carried forward for up to five years.

For all taxable years beginning on January 1, 2017, but before January 1, 2021, a tax credit is authorized against the income tax of an international trade facility that adds new full-time employees or makes capital investments. The amount of the credit is $3,500 per qualified employee added as a result of increased trade activities or 2% of the capital investment made by the taxpayer to increase qualified trade activities. Both tax credits cannot be claimed for the same activities that occur in a calendar year, and it is the taxpayer's responsibility to choose which credit to claim. If an employee works less than a full year, the amount of the credit will be prorated. The maximum amount of tax credits that can be issued is $500,000 per fiscal year. If more than $500,000 is requested in any fiscal year, the credits will be allocated proportionately. To claim the credit, the taxpayer must apply, and the department must provide written certification of the credit amount approved. The credit allowed must not exceed 50% of the taxes owed for any year, but any unused credits may be carried forward for up to 10 years. No credit can be earned for an employee that has been used to earn a credit for a related party, has been previously employed in the same job function in Missouri by a related party, or whose job function was previously performed at a different location in Missouri by another employee of the taxpayer. Two or more affiliated companies may aggregate the number of jobs created in order to qualify for the credits. The tax credits can be recaptured by increasing the taxes in any of the five

FISCAL DESCRIPTION (continued)

succeeding years if the number of qualified full-time employees falls below the average number of qualified full-time employees during the taxable year.

The effective date of this proposal is January 1, 2017.

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
Joint Committee on Administrative Rules
Office of Administration's Division of Budget and Planning
Department of Insurance, Financial Institutions, and Professional Registration
Department of Revenue
Department of Transportation
Office of the Secretary of State

Mickey Wilson

Mickey Wilson, CPA
Director
April 20, 2015

Ross Strope
Assistant Director
April 20, 2015

SJ:LR:OD