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FISCAL IMPACT REPORT

SPONSOR: Marquardt DATE TYPED: 10/31/03 HB 13

SHORT TITLE: Compensating Tax Deduction for Defense Systems SB _____

ANALYST: Williams

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY04	FY05			
	Potential for Significant Revenue Loss *		Recurring	General Fund
	Potential for Revenue Loss *		Recurring	Local Governments

(Parenthesis () Indicate Revenue Decreases)

* See discussion below.

SOURCES OF INFORMATION

LFC Files
No Responses Received From Agencies

SUMMARY

Synopsis of Bill

House Bill 13 authorizes a deduction from compensating tax for equipment, replacement parts, components and systems brought into the state for testing and evaluation programs of the United States Department of Defense at a major range and testing facilities. The deduction is effective beginning July 1, 2004.

FISCAL IMPLICATIONS

The bill would result in a recurring General Fund and local government revenue loss. The magnitude of the revenue loss is under review, but could be significant. At a special session hearing, industry representatives indicated potential total tax liability for one firm of \$10 million. The potential annual impacts are expected to be erratic based on variations in project activity levels from one year to the next.

OTHER SUBSTANTIVE ISSUES

Language in the bill is broadly applicable, and could be narrowed to focus on specific economic development goals and to ensure the incentive is effective.

POSSIBLE QUESTIONS

1. How would the incremental benefits and costs of this tax incentive be measured?

AW/yr