

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1361-01
Bill No.: SB 282
Subject: Business and Commerce; Economic Development; Taxation and Revenue
Type: Original
Date: February 5, 2007

Bill Summary: This proposal modifies provisions of the Missouri Quality Jobs Act.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
General Revenue	\$0 to (\$14,000,000)	\$0 to (\$14,000,000)	\$0 to (\$14,000,000)
Total Estimated Net Effect on General Revenue Fund*	\$0 to (\$14,000,000)	\$0 to (\$14,000,000)	\$0 to (\$14,000,000)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Total Estimated Net Effect on <u>Other</u> State Funds*	\$0	\$0	\$0

* The fiscal impact could be divided between the General Revenue Fund and the County Foreign Insurance Fund (which ultimately goes to local school districts) if some of the tax credits are utilized against insurance premium taxes.

Numbers within parentheses: () indicate costs or losses.
 This fiscal note contains 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
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 2008	FY 2009	FY 2010
Local Government*	\$0	\$0	\$0

*** The fiscal impact could be divided between the General Revenue Fund and the County Foreign Insurance Fund (which ultimately goes to local school districts) if some of the tax credits are utilized against insurance premium taxes.**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Economic Development (DED)** state that each year an additional \$12 million in Missouri Quality Jobs credits would be issued but these credits will not be earned or claimed until the start of the third year fiscal year.

DED assumes the change to the Missouri Quality Jobs program will create positive direct net economic benefit to Missouri of \$5 million in the first 3 fiscal years. At the end of 10 fiscal years, cumulative net general revenue will increase by \$70 million and 4,200 new jobs will be created.

DED assumes the proposal would have no fiscal or administrative impact on their agency.

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 DIFP can not estimate how much would be lost 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 throughout 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 this tax credit each year.

The 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 **Department of Revenue (DOR)** state their Customer Assistance Section anticipates an increase in contacts on the delinquency phone lines. Therefore, Customer Assistance would require 1 Tax Collection Technician I for every additional 15,000 contacts. Customer Assistance also anticipates additional contacts in the field offices and would require 1 Tax Processing Technician I for every additional 4,800 contacts in the field. Customer Assistance expects most customers to contact our offices by phone, therefore, believe the field contacts could be handled with existing staff.

No additional FTE would be needed for the Personal Tax Section, Withholding/Financial Institution Tax Sections, or Corporate/Franchise Tax Section.

ASSUMPTION (continued)

Oversight assumes DOR will not require an additional FTE as a result of this proposal.

The proposal deletes a reference to the Rebuilding Communities program in Section 620.1881.5. The section had reduced the annual cap for the program from \$10 million to \$8 million. With this deletion, **Oversight** assumes the annual limit of the program will once again be \$10 million. The annual issuances for this program for the past three years have been \$1.2 million (FY 2004), \$1.7 million (FY 2005) and \$1.7 million (FY 2006). Oversight will range the fiscal impact of this change from \$0 (no credits over the previous \$8 million cap will be issued and redeemed) to \$2 million loss in tax collections.

The Quality Jobs program has two levels of benefits for qualified Missouri businesses. First, businesses are allowed to retain a certain percentage of withholding taxes of its employees (there is no limit on the retention of withholding taxes). If the business qualifies for benefits exceeding the amount retained in withholding taxes, business can be issued a tax credit, which has a \$12 million annual limit. **Oversight** has ranged the fiscal impact of raising the annual cap of the tax credits for this program from \$0 (no additional tax credits will be redeemed above the current \$12 million cap) to an additional \$12 million loss (\$24 million - \$12 million) to the general revenue fund. The program was created with SB 343 in the 2005 legislative session and according to the DED, there were no benefits issued for fiscal year 2006. DED's projection for fiscal years 2007 and 2008 are for benefits issued of \$6.4 million and \$15 million respectively.

In the fiscal note for the enabling legislation in 2005, since there is no limit for the withholding tax retention, **Oversight** ranged the impact for that portion of the program from \$0 to (Unknown) loss of revenue. Oversight is unsure how the various changes in the proposal will impact the program's withholding tax retention provision and assume Oversight's broad estimate of \$0 to (Unknown) is still applicable.

Oversight compared the total tax credit issuances relative to the total tax credit redemptions for the previous three years in order to determine a relationship between the two. Oversight discovered that the annual redemptions ranged from 79 percent to 86 percent of the annual issuances. Depending on the program, the redeemed credits may have been issued several years prior and carried forward to the years studied; however, Oversight will utilize an estimated redemption total of 83 percent of tax credits issued. Therefore, under this proposal, if \$12,000,000 of credits are issued, Oversight would assume \$9,960,000 (83%) of credits to be redeemed, reducing Total State Revenues.

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.

ASSUMPTION (continued)

This proposal could reduce Total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2008 (10 Mo.)	FY 2009	FY 2010
GENERAL REVENUE			
<u>Loss - DED</u>			
Tax credits for Rebuilding Communities Program (change to 620.1881.5)	\$0 to (\$2,000,000)	\$0 to (\$2,000,000)	\$0 to (\$2,000,000)
<u>Loss - DED</u>			
Tax credits for the Missouri Quality Jobs Act (increase to annual cap in 620.1881.5)	\$0 to <u>(\$12,000,000)</u>	\$0 to <u>(\$12,000,000)</u>	\$0 to <u>(\$12,000,000)</u>
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	\$0 to <u>(\$14,000,000)</u>	\$0 to <u>(\$14,000,000)</u>	\$0 to <u>(\$14,000,000)</u>

Note: This proposal expands the Quality Jobs program by allowing tax credits to be utilized against Chapter 148 taxes. 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.

<u>FISCAL IMPACT - Local Government</u>	FY 2008 (10 Mo.)	FY 2009	FY 2010
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

Small businesses that qualify for the Quality Jobs program or the Rebuilding Communities program would be expected as a result of this proposal.

FISCAL DESCRIPTION

The proposal allows for the use of tax credits issued under the Missouri Quality Jobs Act to be used to offset both Missouri income tax and the financial institutions tax liabilities.

The act allows for the increase of the calendar year annual maximum number of quality jobs training tax credits issued to a qualified company which also participates in the new job training program by an amount equal to the withholding tax retained by such company under the new job training program provided it does not exceed the projected state benefit of the project. The act allows for an increase in the calendar year annual maximum amount of tax credits issued for high impact projects if the number of new jobs will exceed five hundred and such action is proposed by the department and approved by the quality jobs advisory task force.

The act allows a qualified company to begin retaining withholding taxes upon reaching the minimum number of new jobs where the average wage exceeds the county average wage. A qualified company will not receive tax credits if in its annual report, the average wage is below the county average wage, the company has not maintained the required employee insurance, or if the number of new jobs is below the minimum.

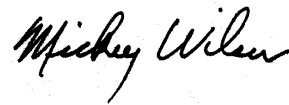
The maximum calendar year annual tax credits issued under the Missouri Quality Jobs Act is increased from twelve million dollars to twenty-four million dollars. Prior to the issuance of tax credits under the Missouri Quality Jobs Act, the Department of Economic Development must verify through the Department of Revenue that the qualified company does not owe any delinquent income, sales, or use taxes, or interest or penalties on such taxes and through the department of insurance that the applicant does not owe any delinquent insurance taxes. If the qualified company has a tax delinquency, the tax credits issued under the Missouri Quality Jobs Act shall first be applied to such delinquency with the remainder, if any, to then be issued to the company.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

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SOURCES OF INFORMATION

Department of Economic Development
Department of Revenue
Department of Insurance, Financial Institutions and Professional Registration

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive style with a large initial "M".

Mickey Wilson, CPA
Director
February 5, 2007