

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1277-01
Bill No.: SB 212
Subject: Business and Commerce; Economic Development; Employees - Employers;
 Taxation and Revenue
Type: Original
Date: February 2, 2009

Bill Summary: This proposal provides tax incentives for small business expansion.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
General Revenue	(\$63,635) to (Unknown)	(\$69,905) to (Unknown)	(\$72,001) to (Unknown)
Total Estimated Net Effect on General Revenue Fund	(\$63,635) to (Unknown)	(\$69,905) to (Unknown)	(\$72,001) to (Unknown)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
 This fiscal note contains 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
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 2010	FY 2011	FY 2012
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration - Budget and Planning (BAP)** state this proposal creates a tax credit for qualifying small businesses that create new jobs in Missouri. The businesses that increase total payroll by more than 20 percent can retain withholding taxes for one year and two years if they provide more than fifty percent of health insurance premiums for all employees. There is no cap on the program. BAP consulted with DED to estimate the number of jobs and business that would be eligible under this program, however, DED does not have an estimate at this time. This program may stimulate other economic activity, but BAP does not have data to estimate the induced revenues. This proposal could therefore reduce general and total state revenue by an unknown amount.

Officials from the **Department of Economic Development (DED)** state the proposed legislation creates the Small Business and Entrepreneurial Growth Act. DED will need to establish the guidelines for the approval process and then notify the Department of Revenue of the approved business so they could handle the retention of the withholding tax under Section 3. The creation of the Small Business and Entrepreneurial Growth Act would result in the need for one additional FTE to administer the program. This FTE would be an Economic Development Incentive Specialist III and would be responsible for reviewing the tax credit applications to make sure they meet the criteria of the program, 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, calculator and telephone and recurring costs for office supplies, computer, professional development and travel.

DED estimates the cost of this additional FTE to be roughly \$70,000 per year.

Officials from the **Department of Revenue (DOR)** assume the proposal would not fiscally impact their agency. Due to the Statewide Information Technology Consolidation, DOR's response to a proposal will now also reflect the cost estimates prepared by OA-IT for impact to the various systems. As a result, the impact shown may not be the same as previous fiscal notes submitted. In addition, if the legislation is Truly Agreed to and Finally Passed the OA-IT costs shown will be requested through appropriations by OA-IT.

Office of Administration Information Technology (ITSD DOR) estimates the IT portion of this request can be accomplished within existing resources, however; if priorities shift, additional FTE/overtime would be needed to implement. The Office of Administration Information Technology (ITSD DOR) estimates that this legislation could be implemented utilizing 3 existing

ASSUMPTION (continued)

CIT III for 1 month for system modifications to COINS, Café and E-file. The estimated cost is \$13,323.

Officials from the **Office of 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 this proposal would result in a reduction in withholding taxes paid to the Department of Revenue of over \$100,000. Oversight assumes the amount of this loss would be 'unknown' since there is no annual limit on this program. Oversight also assumes this program would have an indirect positive impact on Missouri's economy; however, Oversight considers this to be an indirect effect of the proposal and has not reflected it in the fiscal note.

This proposal may reduce Total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2010 (10 Mo.)	FY 2011	FY 2012
GENERAL REVENUE			
<u>Costs - DED</u>			
Personal Service (1 FTE)	(\$35,803)	(\$44,252)	(\$45,580)
Fringe Benefits	(\$17,411)	(\$21,520)	(\$22,166)
Expense and Equipment	<u>(\$10,421)</u>	<u>(\$4,133)</u>	<u>(\$4,255)</u>
<u>Total Costs - DED</u>	(\$63,635)	(\$69,905)	(\$72,001)
FTE Changes - DED	1 FTE	1 FTE	1 FTE
<u>Loss</u> - retention of withheld taxes from newly created jobs	\$0 to <u>(Unknown)</u>	\$0 to <u>(Unknown)</u>	\$0 to <u>(Unknown)</u>
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	(\$63,635) to <u>(Unknown)</u>	(\$69,905) to <u>(Unknown)</u>	(\$72,001) to <u>(Unknown)</u>
Estimated Net FTE Change for the General Revenue Fund	1 FTE	1 FTE	1 FTE
<u>FISCAL IMPACT - Local Government</u>	FY 2010 (10 Mo.)	FY 2011	FY 2012
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

Small businesses that qualify for the program would be positively impacted by the proposal.

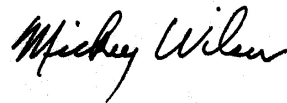
FISCAL DESCRIPTION

This act establishes the Small Business and Entrepreneurial Growth Act which provides tax incentives for small business expansion. Beginning January 1, 2010, small business employers will be allowed to retain new employee income tax withholdings for one year, if such employer increases payroll by at least twenty percent due to the creation of new jobs, or adds new employees so that the total number of employees is five or greater and such jobs pay at least eighty-five percent of the county average wage. Such employers will be allowed to retain all employee income tax withholding for two years if, in addition to the job creation and pay requirements, such employer offers health insurance and pays more than fifty percent of such premiums for all employees.

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
Department of Revenue
Office of Administration - Budget and Planning
Office of the Secretary of State



Mickey Wilson, CPA
Director
February 2, 2009