

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4373-02
Bill No.: Perfected SB 873
Subject: Education, Higher; Tax Incentives
Type: Original
Date: April 13, 2016

Bill Summary: This proposal creates the Missouri Science, Technology, Engineering, and Mathematics Initiative

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2017	FY 2018	FY 2019	Fully Implemented (FY 2022)
General Revenue	\$0 up to (\$6,350,000)	\$0 up to (\$23,850,000)	\$0 up to (\$40,650,000)	\$0 up to (\$82,150,000)
Total Estimated Net Effect on General Revenue	\$0 up to (\$6,350,000)	\$0 up to (\$23,850,000)	\$0 up to (\$40,650,000)	\$0 up to (\$82,150,000)

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 2017	FY 2018	FY 2019	Fully Implemented (FY 2020)
Science, Technology, Engineering, and Mathematics*	\$0	\$0	\$0	\$0
Total Estimated Net Effect on Other State Funds	\$0	\$0	\$0	\$0

*Transfers In and expenses net to zero.

Numbers within parentheses: () indicate costs or losses. This fiscal note contains 9 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2017	FY 2018	FY 2019	Fully Implemented (FY 2020)
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)				
FUND AFFECTED	FY 2017	FY 2018	FY 2019	Fully Implemented (FY 2020)
Total Estimated Net Effect on FTE	0	0	0	0

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 2017	FY 2018	FY 2019	Fully Implemented (FY 2020)
Local Government	\$0	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Department of Higher Education (DHE)** assume DHE would be in charge of reviewing applications to have individuals' tax liability removed from General Revenue and placed in the Science, Technology, Engineering, and Mathematics Fund (§173.670.6 and §620.3030.3). This would require the promulgation of rules to determine how an applicant would be selected, which could be handled with existing staff, and the addition of 2/3 FTE to handle the continuous influx of applications for the two new programs.

DHE is also authorized to promulgate rules to implement §620.2605, which could be handled with existing staff. After speaking with the Department of Revenue, the DHE would likely be the agency that ensures the qualifications for §620.2605 have been met. This would require the addition of 1/3 FTE to handle the influx of applications.

Oversight assumes the Department of Higher Education could absorb the work of this proposal with existing resources.

Officials at the **Department of Revenue (DOR)** assume the legislation authorizes an employer to retain an employee's withholding tax for five years if the employee graduates with a science, technology, engineering, or mathematics degree from a Missouri Innovation Campus after April 30, 2017. The qualified individual receives full credit for the amount of tax withheld as provided in §143.211. DOR assumes that a form will be needed that allows the employer to report retained withholdings and DOR will need to track the amount of withholdings retained.

Withholding tax requires one (1) Revenue Processing Technician I to track the amount of withholdings retained.

Oversight assumes the duties outlined in this proposal can be handled by current staff. Should DOR see an increase in responsibilities, they can seek that FTE through the appropriation process.

Officials at the **Office of Administration's Division of Budget and Planning (BAP)** assume 620.2605 of this proposal allows businesses to retain up to 100% of withholdings for employees who have graduated with a STEM Bachelor's degree after April 30, 2017. Employers can retain these withholdings for up to five years.

This estimate assumes that all eligible higher education institutions apply for and become an "innovation campus".

ASSUMPTION (continued)

BAP estimates, based on the number of STEM graduates and the average starting salary by STEM occupation, that this proposal would reduce general and total state revenues by an estimated \$82.1 million once fully implemented.

FY 2017 \$6,300,000
FY 2018 \$23,800,000
FY 2019 \$40,600,000
FY 2020 \$56,800,000
FY 2021 \$72,400,000
FY 2022 \$82,100,000

173.670 of this proposal provides a process whereby a qualifying taxpayer that hires a qualifying intern may apply to have up to \$5,000 of their tax liability transferred from the General Revenue Fund to the Science, Technology, Engineering and Mathematics (STEM) Fund, which may subsequently be appropriated to public higher education institutions. The annual limit on funds that may be moved from General Revenue under this proposal is \$50,000. This proposal will have no direct impact on Total State Revenues; however, General Revenue may be reduced by up to \$50,000 annually.

620.3030 of this proposal provides that employers who provide educational benefits or training to a qualified individual for an employment position in health care, engineering, or information technology fields for no more than one year may apply to have up to \$5,000 of their tax liability transferred from the General Revenue Fund to the Science, Technology, Engineering and Mathematics (STEM) Fund, which may subsequently be appropriated to public higher education institutions. The annual limit on funds that may be moved from General Revenue under this proposal is \$50,000. This proposal will have no direct impact on Total State Revenue; however, General Revenue may be reduced by up to \$50,000 annually.

Officials at the **Department of Insurance, Financial Institutions, and Professional Registration (DIFP)** assume an unknown reduction of premium tax revenue as a result of the creation of the "Missouri Science, Technology, Engineering and Mathematics Initiative" tax credit is possible. 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 tax credits each year.

The department will require minimal contract computer programming to add the new tax credit

ASSUMPTION (continued)

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 at the **Department of Economic Development (DED)** assume this proposed legislation is almost identical to HB 1640. That legislation, and this legislation, allows a taxpayer hiring someone enrolled as student in a STEM field to apply and have up to \$5,000 of the taxpayers state tax liability transferred from the General Revenue and placed in the STEM Fund. It further creates the Economic Education Partnership Act that allows an employer that provides educational benefits to employees to apply to have up to \$5,000 of the taxpayers state tax liability transferred from the GR to the Fund. It also requires DED to audit an employer to make sure they qualify.

This legislation adds a new section, 620.2605, that allows an employer that hires a qualified individual (an individual who has graduated from an innovation campus with a bachelor's degree in a STEM field after April 30, 2017) to retain up to 100% of the qualified individual's withholding tax for up to 5 years. The qualified individual shall receive full credit for the amount of tax withheld as provided in 143.211. It allows DOR and Department Higher Education to create rules and regulations to administer the section.

This legislation will require DED to hire 1 FTE to administer the program. The negative impact to the General Revenue from the addition of section 620.2605 is very difficult to calculate because there is not significant data on the number of STEM graduates who stay in Missouri working in STEM fields. A calculation using a very conservative estimate that only 50% of STEM graduates stay in Missouri means that this would cause a negative impact of roughly \$3,206,250 per year. In reality the cost could be much higher.

DED calculated this impact with the following formula: the graduates in the field multiplied by the number who stay in Missouri multiplied by the statewide average wage (or any number representative of the STEM fields) multiplied by the adjusted gross income tax percentage provided by DOR. Based on this formula, the calculation is as follows: 9500 students multiplied by 50 percent (assumption) who stay in Missouri multiplied by 50 percent who get a job in the STEM field (assumption) multiplied by \$45,000 statewide average pay multiplied by 3 percent equals \$3,206,250.

Oversight assumes this duties outlined in this proposal can be handled with current staff. Should DED see an increase in audits to justify an additional FTE, they can seek that FTE through the appropriations process.

ASSUMPTION (continued)

In response to similar legislation filed this year (HB 1640), officials at the **Office of the State Treasurer** assume no fiscal impact from this proposal to their organization.

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

Officials from the **Office of the Secretary of State (SOS)** stated 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 assumes §173.670 & §620.3030 of this proposal allows for the transfer out of General Revenue and into the Science, Technology, Engineering and Mathematics Fund of a taxpayers' tax liability if they hire an intern. Oversight will reflect the loss to General Revenue of \$0 (no money is transferred) to \$50,000 the annual limit allowed under these programs. Oversight assumes all money received in the STEM fund will be spent according to this proposal.

Oversight assumes §620.2605 of this proposal allows for any employer that has partnered with an innovation campus and hires an individual that has graduated from an innovation campus to retain up to 100% of the qualified individual's withholding tax for up to five years. Oversight will reflect the loss to General Revenue as \$0 (no withholding tax is retained) to the estimates provided by BAP.

FISCAL IMPACT - State
Government

FY 2017
 (10 Mo.) FY 2018 FY 2019 Fully
 Implemented
 (2022)

GENERAL REVENUE

Loss - employer retention
of withholding tax of
qualified individual \$0 up to \$0 up to \$0 up to \$0 up to
 §620.2605 (\$6,300,000) (\$23,800,000) (\$40,600,000) (\$82,100,000)

Transfer Out - to STEM
fund - taxpayer tax liability
transferred for hiring an
intern or providing
educational benefits
 §173.670 & §620.3030 \$0 to (\$50,000) \$0 to (\$50,000) \$0 to (\$50,000) \$0 to (\$50,000)

ESTIMATED NET
EFFECT ON GENERAL
REVENUE **\$0 up to**
 (\$6,350,000) **\$0 up to**
 (\$23,850,000) **\$0 up to**
 (\$40,650,000) **\$0 up to**
 (\$82,150,000)

SCIENCE,
TECHNOLOGY,
ENGINEERING AND
MATHEMATICS FUND

Transfer In - from General
Revenue - taxpayers' tax
liability for hiring an intern \$0 to \$50,000 \$0 to \$50,000 \$0 to \$50,000 \$0 to \$50,000

Cost - matching funds for
higher education institution
programs \$0 to (\$50,000) \$0 to (\$50,000) \$0 to (\$50,000) \$0 to (\$50,000)

ESTIMATED NET
EFFECT ON SCIENCE,
TECHNOLOGY,
ENGINEERING AND
MATHEMATICS FUND **\$0** **\$0** **\$0** **\$0**

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.

<u>FISCAL IMPACT -</u> <u>Local Government</u>	FY 2017 (10 Mo.)	FY 2018	FY 2019	Fully Implemented (FY 2020)
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

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

FISCAL DESCRIPTION

The bill authorizes any taxpayer who hires a student majoring in science, technology, engineering, or mathematics at a Missouri public or private two-year or four-year college to fill an internship position in one of those fields for at least 15 hours a week for at least 12 weeks to apply to have up to \$5,000 of the taxpayer's state tax liability removed from the General Revenue Fund and placed in the Science, Technology, Engineering and Mathematics Fund. The Department of Higher Education must establish a procedure for approving applications, and the total amount of tax transferred annually cannot exceed \$50,000 for all participating taxpayers. Any donations to the fund from third parties will not count toward the \$50,000 limit.

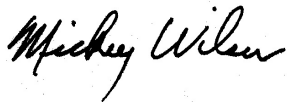
The bill establishes the Economic-Education Partnership Act. An employer with facilities in Missouri that provides educational benefits to a qualified individual or trains a qualified individual for an employment position in one of the specified fields, can apply to have up to \$5,000 of the taxpayer's state tax liability transferred from the General Revenue Fund and placed in the Science, Technology, Engineering and Mathematics Fund. Training must be in the health care, engineering, or information technology fields for no more than one year. "Education benefits" are defined as the funds provided by an employer to a qualified individual or to an accredited educational institution for a period of up to five years to pay any portion of the tuition or fees for an employee who is a resident of Missouri to pursue an advanced certificate or an associates, bachelors, masters, or doctorate degree in health care, engineering, or information technology related programs. The department must establish a procedure for approving applications, and the total amount of tax transferred annually cannot exceed \$50,000 for all participating taxpayers. The department may audit employers to ensure compliance with these provisions.

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

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



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