

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4490-05
Bill No.: HCS for SS for SB 799
Subject: Business and Commerce; Banks and Financial Institutions; Cooperatives;
 Corporations; Secretary of State; Veterans
Type: Original
Date: May 3, 2016

Bill Summary: This proposal changes the laws regarding business fees.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
General Revenue	(Could Exceed \$187,700)	(Could Exceed \$250,383)	(Could Exceed \$278,832)
Total Estimated Net Effect on General Revenue	(Could Exceed \$187,700)	(Could Exceed \$250,383)	(Could Exceed \$278,832)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Technology Trust	(Could Exceed \$55,658)	(Could Exceed \$33,780)	(Could Exceed \$36,950)
Total Estimated Net Effect on <u>Other</u> State Funds	(Could Exceed \$55,658)	(Could Exceed \$33,780)	(Could Exceed \$36,950)

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
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Total Estimated Net Effect on FTE	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
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

In response to a previous version, officials at the **Office of the Secretary of State (SOS)** assumed this proposal would waive certain fees for the following types of businesses for veterans, members of the Missouri National Guard, or any other Active Duty Military.

- Regarding the organization of limited liability companies and name reservations in Chapter 347.
- Regarding the organization of corporations in Chapter 351.
- Regarding the organization of health services corporations in Chapter 354,
- Regarding the organization of not-for-profit corporations in Chapter 355
- Regarding the organization of cooperative associations in Chapter 357
- Regarding the organization of limited liability partnerships in Chapter 358,
- Regarding the organization of limited partnerships in Chapter 359,
- Regarding the organization of rural electric cooperatives in Chapter 394, and
- Regarding the registration and renewal of fictitious names in Chapter 417

SOS assumed there will be necessary changes to the data management system used by the Business Services Division. These changes could amount to a one-time charge estimated at \$30,000. This charge would impact the Technology Trust Fund Account.

In 2012, The SBA Office of Advocacy estimated that Veteran-owned businesses represented 9.1% of all businesses in the United States. This percentage was used when approximating the number of Veteran-associated registrations in Missouri. The actual percentage of Veteran-owned businesses in Missouri could be higher or lower which would impact the accuracy of these projections.

SOS assumed that the number of businesses who will take advantage of this incentive will increase over time as the public awareness increases. In light of this, an adoption rate ranging from 65% in fiscal year 2017 to 75% in fiscal year 2019 was assumed. The assumed adoption rate increases annually at 5% increments.

The number of filings for each type of entity was estimated using a range of historical data. Due to the methods by which the data is captured, the number of data points used for each type of entity varies.

The projected number of filings was estimated using forecast function in Microsoft Excel which is based on a linear projection model. The linear model was modified to project using the

ASSUMPTION (continued)

previous 5 years (when available) instead of the entire range of data. This was done to more closely reflect the current climate.

The specific calculations for each entity are outlined below.

- 1) Impact of fees waived by §347.179.2 (Subdivisions (1) and (2) of subsection 1 regarding the organization of limited liability companies, LLCs)
 - A. An average fee of \$66.65 was calculated based on the distribution of LLC applications in 2014:
 - Online LLC Applications: 23,312 at a fee of \$45.00 (Revenue: \$1,049,040.00)
 - Mail-in LLC Applications: 15,132 at a fee of \$100.00 (Revenue: \$1,513,200.00)
 - Total LLC Applications: 38,444 for a total revenue of \$2,562,240.00
 - \$2,562,240.00 divided by 38,444 total applications = average application fee paid of \$66.65.
 - B. The formula to determine the fiscal impact for each year is the product of the number of projected LLC filings multiplied by the number of Veteran owned businesses, multiplied by the assumed adoption rate, multiplied by the average application fee.

$$\begin{aligned} 2017: & [(50,174 * 0.091) * 0.65] * \$66.65 = \$197,803.34 \\ 2018: & [(52,415 * 0.091) * 0.70] * \$66.65 = \$222,534.87 \\ 2019: & [(54,941 * 0.091) * 0.75] * \$66.65 = \$249,917.14 \end{aligned}$$

- 2) Impact of fees waived by §347.179.2 (Subdivision (11) of subsection 1 regarding the reservation of names)
 - A. The standard fee of \$20.00 is applied.
 - B. The formula to determine the fiscal impact for each year is the product of the number of projected name reservation filings multiplied by the number of Veteran owned businesses, multiplied by the assumed adoption rate, multiplied by the standard fee:

$$\begin{aligned} 2017: & [(596 * 0.091) * 0.65] * \$20.00 = \$705.07 \\ 2018: & [(630 * 0.091) * 0.70] * \$20.00 = \$802.62 \\ 2019: & [(664 * 0.091) * 0.75] * \$20.00 = \$906.36 \end{aligned}$$

- 3) Impact of fees waived by §357.060.2 (Subsection 1 regarding the organization of Corporations, Corps.)
 - A. The basic fee of \$53.00 is applied as this covers the majority of general corporation filings.
 - B. The formula to determine the fiscal impact for each year is the product of the number of

ASSUMPTION (continued)

projected general corporation filings multiplied by the number of Veteran owned businesses, multiplied by the assumed adoption rate, multiplied by the basic application fee:

$$2017: [(4,399 * 0.091) * 0.65] * \$53.00 = \$17,343.11$$

$$2018: [(4,218 * 0.091) * 0.70] * \$53.00 = \$17,909.81$$

$$2019: [(4,016 * 0.091) * 0.75] * \$53.00 = \$18,269.37$$

4) Impact of fees waived by §354.150.2 (Subdivision (1) of subsection 1 regarding the organization of Health Services corporations)

- The fiscal impact of the waiver of fees for health services corporations was omitted from the projections due to the relatively small number of annual filings for this type of entity.

5) Impact of fees waived by §355.021.4 (Subdivisions (1) and (2) of subsection 1 regarding the organization of Not-for-Profit Corporations, NP Corps.)

A. The standard fee of \$20.00 is applied.

B. The formula to determine the fiscal impact for each year is the product of the number of projected not-for-profit corporation filings multiplied by the number of Veteran owned businesses, multiplied by the assumed adoption rate, multiplied by the standard application fee:

$$2017: [(3,036 * 0.091) * 0.65] * \$20.00 = \$3,592.11$$

$$2018: [(3,052 * 0.091) * 0.70] * \$20.00 = \$3,887.82$$

$$2019: [(3,112 * 0.091) * 0.75] * \$20.00 = \$4,247.97$$

6) Impact of fees waived by §357.060.2 (Subsection 1 regarding the organization of cooperative associations.)

- The fiscal impact of the waiver of fees for cooperative associations was omitted from the projections due to the relatively small number of annual filings for this type of entity.

7) Impact of fees waived by §358.440.21 (Subsection 3 regarding the organization of limited liability partnerships, LLPs.)

A. The maximum fee of \$100.00 is applied as a review of internal data shows that most LLP organizations are charged the maximum fee.

B. The formula to determine the fiscal impact for each year is the product of the number of projected LLP filings multiplied by the number of Veteran owned businesses, multiplied by the assumed adoption rate, multiplied by the standard application fee:

ASSUMPTION (continued)

2017: $[(154 * 0.091) * 0.65] * \$100.00 = \$909.11$
 2018: $[(152 * 0.091) * 0.70] * \$100.00 = \$966.01$
 2019: $[(149 * 0.091) * 0.75] * \$100.00 = \$1,015.29$

- 8) Impact of fees waived by §359.651.2 (Subdivision (1) of subsection 1 regarding the organization of limited partnerships, LPs.)
- The fiscal impact of the waiver of fees for limited partnerships was omitted from the projections due to the relatively small number of annual filings for this type of entity.
- 9) Impact of fees waived by §394.250.3 (Subdivision (1) of Subsection 1 regarding the organization of rural electric cooperative associations.)
- The fiscal impact of the waiver of fees for rural elective cooperative associations was omitted from the projections due to the relatively small number of annual filings for this type of entity.
- 10) Impact of fees waived by §417.220.2 (Subsection 1 regarding the registration or renewal of fictitious names)
- A. The standard fee of \$2.00 is applied
- B. The formula to determine the fiscal impact for each year is the product of the number of projected LLP filings multiplied by the number of Veteran owned businesses, multiplied by the assumed adoption rate, multiplied by the standard application fee:

2017: $[(34,428 * 0.091) * 0.65] * \$2.00 = \$4,072.83$
 2018: $[(33,609 * 0.091) * 0.70] * \$2.00 = \$3,887.82$
 2019: $[(32,790 * 0.091) * 0.75] * \$2.00 = \$4,247.97$

In summary, the SOS assumed the proposal would have the following fiscal impact to the General Revenue Fund and the Technology Trust Fund:

IMPACT TO GENERAL REVENUE	FY17 *	FY18	FY19
LLP	\$ 757.59	\$ 966.01	\$ 1,015.29
LLC	\$ 164,836.12	\$ 222,534.87	\$ 249,917.14
General Corporations	\$ 14,452.59	\$ 17,909.81	\$ 18,269.37
Non-Profit Corporations	\$ 2,993.43	\$ 3,887.82	\$ 4,247.97
Fictitious Names	\$ 4,072.83	\$ 4,281.79	\$ 4,475.84
Name Reservations	\$ 587.56	\$ 802.62	\$ 906.36
Annual Total Impact	\$ 187,700.12	\$ 250,382.92	\$ 278,831.97

ASSUMPTION (continued)

IMPACT TO TECH TRUST FUND	FY17 *	FY18	FY19
Fictitious Names	\$ 8,483.33	\$ 10,705.00	\$ 11,190.00
General Corporations	\$ 1,083.33	\$ 1,345.00	\$ 1,370.00
LLC	\$ 12,366.67	\$ 16,695.00	\$ 18,750.00
LLP	\$ 37.50	\$ 50.00	\$ 50.00
Name Reservations	\$ 2,937.50	\$ 4,015.00	\$ 4,530.00
Non-Profit Corporations	\$ 750.00	\$ 970.00	\$ 1,060.00
<i>Annual Total Impact</i>	<i>\$ 25,658.33</i>	<i>\$ 33,780.00</i>	<i>\$ 36,950.00</i>

*Because the proposed legislation would not go into effect until August 28, 2016, estimations for FY17 impact have been reduced.

In response to similar legislation filed this year (HB 2631), officials at the **Office of Administration's Division of Budget and Planning (BAP)** noted that under current law, retail sales tax applicants must present a bond not more than three times their average monthly liability. This proposal diminishes that amount to no more than twice their average monthly liability. Additionally, the proposal reduces the bond release date from two years to one year.

BAP assumed this proposal could decrease Total State Revenue by an unknown amount, which likely would be minimal.

In response to similar legislation filed this year (HB 2631), officials from the **Department of Revenue** assumed no fiscal impact from this proposal to their organization.

Oversight assumes a "minimal" reduction in General Revenue funds will be absorbable, but will present the reduction in state revenue for fiscal note purposes.

<u>FISCAL IMPACT - State Government</u>	FY 2017 (10 Mo.)	FY 2018	FY 2019
GENERAL REVENUE			
<u>Revenue Reduction</u> - DOR - sales tax compliance bonds reduction	(Minimal)	(Minimal)	(Minimal)
<u>Revenue Reduction</u> - SOS - waiving of certain fees for veterans, members of the Missouri National Guard, or any other Active Duty Military	(Could Exceed <u>\$187,700</u>)	(Could Exceed <u>\$250,383</u>)	(Could Exceed <u>\$278,832</u>)
ESTIMATED NET EFFECT TO GENERAL REVENUE	(Could Exceed <u>\$187,700</u>)	(Could Exceed <u>\$250,383</u>)	(Could Exceed <u>\$278,832</u>)
TECHNOLOGY TRUST FUND			
<u>Cost</u> - SOS - computer programming - data management system	(\$30,000)	\$0	\$0
<u>Revenue Reduction</u> - SOS - waiving of certain fees for veterans, members of the Missouri National Guard, or any other Active Duty Military	(Could Exceed <u>\$25,658</u>)	(Could Exceed <u>\$33,780</u>)	(Could Exceed <u>\$36,950</u>)
ESTIMATED NET EFFECT TO TECHNOLOGY TRUST FUND	(Could Exceed <u>\$55,658</u>)	(Could Exceed <u>\$33,780</u>)	(Could Exceed <u>\$36,950</u>)
<u>FISCAL IMPACT - Local Government</u>	FY 2017 (10 Mo.)	FY 2018	FY 2019
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

Small businesses started by Veterans would have fewer startup costs because the fees for business creation would be waived under this proposed legislation.

FISCAL DESCRIPTION

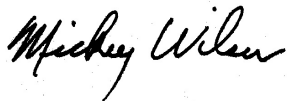
This act waives specified business fees when a specified organizer, majority shareholder, officer, director, or partner of a company, corporation, health services corporation, nonprofit corporation, cooperative company, or partnership is a veteran, resides in Missouri, and provides proof of military service to the Secretary of State.

This proposal changes the amount of bonding required for a retail sales tax license with the Department of Revenue from three to two times the licensee's average monthly tax liability and changes the bond term from two years to one year.

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

Office of the Secretary of State
Office of Administration's Division of Budget and Planning
Department of Revenue



Mickey Wilson, CPA
Director
May 3, 2016

Ross Strobe
Assistant Director
May 3, 2016