

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 4490-06  
Bill No.: CCS for HCS for SS for SB 799  
Subject: Business and Commerce; Banks and Financial Institutions; Cooperatives; Corporations; Secretary of State; Veterans  
Type: Original  
Date: May 11, 2016

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

**FISCAL SUMMARY**

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

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
School District Trust	\$0 or Unknown	\$0 or Unknown	\$0 or Unknown
Conservation Commission	\$0 or Unknown	\$0 or Unknown	\$0 or Unknown
Parks, and Soil and Water	\$0 or Unknown	\$0 or Unknown	\$0 or Unknown
Technology Trust	(Could Exceed \$55,658)	(Could Exceed \$33,780)	(Could Exceed \$36,950)
<b>Total Estimated Net Effect on Other State Funds</b>	<b>Unknown to (Could Exceed \$55,658)</b>	<b>Unknown to (Could Exceed \$33,780)</b>	<b>Unknown to (Could Exceed \$36,950)</b>

Numbers within parentheses: ( ) indicate costs or losses.

This fiscal note contains 11 pages.

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

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>			
<b>FUND AFFECTED</b>	<b>FY 2017</b>	<b>FY 2018</b>	<b>FY 2019</b>
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</b>

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2017</b>	<b>FY 2018</b>	<b>FY 2019</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

## FISCAL ANALYSIS

### ASSUMPTION

§144.083 - No tax due statements:

In response to a similar proposal from this year (HB 1615), officials from the **Department of Revenue (DOR)** assumed this proposal requires any entity who bids on publically funded projects to submit a statement of “no tax due” with the bid. DOR stated the proposal would require one (1) Revenue Processing Technician I, with related benefits, equipment, and expense of \$43,603 for FY 2017, \$45,497 for FY 2018 and \$45,867 for FY 2019.

**Oversight** assumes existing DOR staffing would be adequate to implement this proposal. If unanticipated additional costs are incurred, or if multiple proposals are implemented that increase DOR costs or the workload for DOR employees, resources could be requested through the budget process.

In response to a similar proposal from this year (HB 1615), officials from the **Office of Administration - Division of Budget and Planning (B&P)** assumed this proposal requires any person or entity bidding on a publicly funded project to submit a copy of their city or county business license if applicable, along with a statement of “no tax due”. B&P officials assume that while this proposal will not directly impact General and Total State Revenue, it could have a positive impact if it results in more people paying taxes already owed to the state. B&P notes the 18(e) calculation should not be impacted.

**Oversight** will show the state and locals funds potentially receiving more tax money. **Oversight** will show the impact as \$0 to unknown from the additional filers.

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,

ASSUMPTION (continued)

- 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 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.

ASSUMPTION (continued)

- 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.

$$2017: [(50,174 * 0.091) * 0.65] * \$66.65 = \$197,803.34$$

$$2018: [(52,415 * 0.091) * 0.70] * \$66.65 = \$222,534.87$$

$$2019: [(54,941 * 0.091) * 0.75] * \$66.65 = \$249,917.14$$

- 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:

$$2017: [(596 * 0.091) * 0.65] * \$20.00 = \$705.07$$

$$2018: [(630 * 0.091) * 0.70] * \$20.00 = \$802.62$$

$$2019: [(664 * 0.091) * 0.75] * \$20.00 = \$906.36$$

- 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 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.

ASSUMPTION (continued)

- 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:

$$\begin{aligned} 2017: & [(3,036 * 0.091) * 0.65] * \$20.00 = \$3,592.11 \\ 2018: & [(3,052 * 0.091) * 0.70] * \$20.00 = \$3,887.82 \\ 2019: & [(3,112 * 0.091) * 0.75] * \$20.00 = \$4,247.97 \end{aligned}$$

- 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:

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

- 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.)

ASSUMPTION (continued)

- 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:

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

ASSUMPTION (continued)

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

ASSUMPTION (continued)

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

Officials at the **Office of Administration's Division of Budget and Planning (BAP)** note under §144.087 retail sales license applicants currently must present a bond not more than three times their average monthly tax liability. This bill diminishes that amount to no more than twice their average monthly tax liability. Additionally, the bill reduces the bond release date from two years to one.

This bill could decrease Total State Revenue by an unknown amount. Total State Revenue calculations include cash bonds but the refunded amount will be excluded upon refund. The Total State Revenue impact would likely be minimal.

§§347.015, 347.179, 351.015, 351.065, 354.010, 354.150, 355.021, 355.066, 357.060, 358.020, 358.440, 359.011, 359.651, 394.020, 394.250, and 417.220 - the proposal waives various business fees for military veterans and military spouses. These waivers will reduce Total State Revenue by reducing revenues from fees, which will also lower 18E calculations. BAP defers to the Secretary of State's Office for an estimate of the proposal's fiscal impact.

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
<b>GENERAL REVENUE</b>			
<u>Additional Revenue</u> - delinquent tax collections §144.083	\$0 or Unknown	\$0 or Unknown	\$0 or Unknown
Revenue Reduction - DOR - sales tax compliance bonds reduction §144.087	(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> )
<b>ESTIMATED NET EFFECT TO GENERAL REVENUE</b>	<b>Unknown to (Could Exceed <u>\$187,700</u>)</b>	<b>Unknown to (Could Exceed <u>\$250,383</u>)</b>	<b>Unknown to (Could Exceed <u>\$278,832</u>)</b>
<b>SCHOOL DISTRICT TRUST FUND</b>			
<u>Additional Revenue</u> - delinquent tax collections	<u>\$0 or Unknown</u>	<u>\$0 or Unknown</u>	<u>\$0 or Unknown</u>
<b>ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND</b>	<b><u>\$0 or Unknown</u></b>	<b><u>\$0 or Unknown</u></b>	<b><u>\$0 or Unknown</u></b>
<b>CONSERVATION COMMISSION FUND</b>			
<u>Additional Revenue</u> - delinquent tax collections	<u>\$0 or Unknown</u>	<u>\$0 or Unknown</u>	<u>\$0 or Unknown</u>
<b>ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND</b>	<b><u>\$0 or Unknown</u></b>	<b><u>\$0 or Unknown</u></b>	<b><u>\$0 or Unknown</u></b>



### FISCAL DESCRIPTION

This proposal would beginning January 1, 2017, require statements of no tax due to be submitted with any bid to perform work on publicly funded projects.

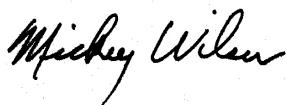
This act waives specified business fees when a specified organizer, majority shareholder, officer, director, or partner of a company, corporation, health services corporation, nonprofit corporation, cooperative company, or partnership is a veteran, resides in Missouri, and provides proof of military 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 11, 2016

Ross Strobe  
Assistant Director  
May 11, 2016