

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5399-01
Bill No.: HB 1870 with SA 1, SA3, SA 4 & SA 5
Subject: Taxation and Revenue - Income; Business and Commerce; Economic Development
Type: Original
Date: April 26, 2016

Bill Summary: This proposal changes the laws regarding the collection of money by public entities.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
General Revenue	(Up to \$120,070)	(\$120,070)	(\$120,070)
Total Estimated Net Effect on General Revenue	(Up to \$120,070)	(\$120,070)	(\$120,070)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 7 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 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration - Division of Budget and Planning (B&P)** note this proposal would renew the expired provisions of the Big Government Get Off My Back Act for an additional five years. B&P officials assume Total State Revenue and the calculation required under Section 18(e) of the Missouri Constitution would be impacted, as the existing language expired on August 28, 2014.

User Fees

B&P officials noted the proposal would re-enact the ban on user fee increases imposed by the state over the life of the program; exclusions would be provided to implement federal and General Assembly approved programs. BAP officials also noted this provision could reduce Total State Revenue and general revenue growth to the extent an agency intended to increase any of these fees.

Oversight considers the loss of potential fee increases to be prospective and will not include an impact in this fiscal note for those potential losses.

Tax Deduction for Job Creation

B&P officials also noted the proposal would extend an existing tax deduction for five additional years for any business with less than 50 employees that creates a qualifying job paying wages above the county average. The new employee would be required to work an average of 35 hours per week for 52 weeks. The deduction would range from \$10,000 to \$20,000, depending on whether the employer provides health insurance coverage. B&P officials assume the Department of Revenue would provide the amounts claimed for this deduction over the past five years, which could be an indicator for the amount Total State Revenue could be reduced over the next five years, and noted the Section 18(e) calculation would be reduced by the amount that is claimed in the first full year after the proposal is implemented.

BAP officials also noted this proposal could encourage economic growth which could impact Total State Revenue.

Oversight considers potential economic growth to be prospective and will not include an impact in this fiscal note for potential revenue increases.

ASSUMPTION (continued)

Officials from the **Department of Revenue (DOR)** assume this proposal would freeze state agency user fees for an additional 5 years unless those fees are implemented by a federal program, and would extend the deduction for the creation of new jobs by small business.

Fiscal impact

DOR officials noted the extension of the tax deduction to December 31, 2019, would result in a continued loss of Total State Revenue of \$120,070 per year. DOR officials provided the following information regarding these claims:

- * For tax year 2014, 105 Missouri individual income tax returns were filed claiming the New Jobs Deduction in the amount \$1,532,416. Based on a top tax rate of six percent, the Department estimated a reduction of \$91,950 to Total State Revenue from individual income tax return claims.
- * For tax year 2014, 10 Missouri corporation income tax returns were filed claiming the New Jobs Deduction in the amount \$450,000. Based on a tax rate of six and one quarter percent, the Department estimated a reduction of \$28,120 to Total State Revenue from corporate income tax return claims.

Administrative Impact

DOR officials assume Personal Tax and Corporate Tax would require forms and programming changes to extend the expiration year.

DOR officials did not provide an estimate of the administrative cost to implement this proposal, and **Oversight** assumes the proposal could be implemented with existing DOR resources.

Oversight notes this proposal does not include a specific effective date and assumes it would become effective August 28, 2016 (FY 2017). The existing program expired August 28, 2014 (FY 2015) and Oversight assumes deductions under this program could not be claimed between August 28, 2014 and August 28, 2016.

ASSUMPTION (continued)

For fiscal note purposes, **Oversight** assumes the DOR estimate of program cost is the best available; however the proposal would have been effective for only a part of 2016. Oversight notes that most 2016 income tax returns would be filed beginning in January 2017 (FY 2017) and will indicate a fiscal impact up to the DOR estimate for FY 2017. Oversight will include the DOR estimate of cost for FY 2018 when 2017 returns would be filed and for FY 2019 when 2018 returns would be filed since the program would be in effect for all of 2017 and 2018.

Officials from the **Office of the Secretary of State (SOS)** assume 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 Secretary of State's Office for Administrative Rules is less than \$2,500. The SOS recognizes this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be greater than our office can sustain with our core budget. Therefore, we reserve 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.

Officials from the **Department of Economic Development** assume this proposal would not have a fiscal impact to their organization.

Officials from the **Joint Committee on Administrative Rules** assume this proposal would not have a fiscal impact to their organization in excess of existing resources.

Senate Amendment 1

Oversight assumes Senate Amendment 1 will have no fiscal impact.

Senate Amendment 3

Oversight assumes this amendment may have a negative fiscal impact to cities that are no longer allowed to collect this business license tax. Due to time constraints, Oversight did not receive any responses from cities regarding this amendment. Therefore, Oversight will reflect a potential fiscal impact to cities of \$0 or an Unknown loss of business license tax revenue.

ASSUMPTION (continued)

Senate Amendment 4

Oversight assumes Senate Amendment 4 will have no fiscal impact.

Senate Amendment 5

Oversight assumes Senate Amendment 5 will have no fiscal impact.

	FY 2017 (10 Mo.)	FY 2018	FY 2019
<u>FISCAL IMPACT - State Government</u>			
GENERAL REVENUE			
<u>Revenue reduction - DOR - Section 143.173</u>			
Deductions for new jobs created under the Big Government Get off My Back Act	(Up to <u>\$120,070</u>)	<u>(\$120,070)</u>	<u>(\$120,070)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	(Up to <u>\$120,070</u>)	<u>(\$120,070)</u>	<u>(\$120,070)</u>
<u>FISCAL IMPACT - Local Government</u>			
	FY 2017 (10 Mo.)	FY 2018	FY 2020)
CITIES			
<u>Loss - Senate Amendment 3 - Cities no longer allowed to impose a business license tax after May 1, 2016</u>	\$0 or <u>(Unknown)</u>	\$0 or <u>(Unknown)</u>	\$0 or <u>(Unknown)</u>
ESTIMATED NET EFFECT TO CITIES	<u>\$0 or (Unknown)</u>	<u>\$0 or (Unknown)</u>	<u>\$0 or (Unknown)</u>

FISCAL IMPACT - Small Business

This proposal could have a direct fiscal impact to small businesses which pay state agency user fees or receive state tax deductions for creating new jobs.

FISCAL DESCRIPTION

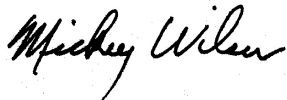
This proposal extends the provisions of the Big Government Get Off My Back Act which provides tax relief to certain small businesses for five years beginning August 28, 2016.

Senate Amendment 3 states that on or after May 1, 2016, a city shall not impose a business license tax on any business under more than specified sections.

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
Joint Committee on Administrative Rules
Office of Administration
 Division of Budget and Planning
Department of Economic Development
Department of Revenue



Mickey Wilson, CPA
Director
April 26, 2016

Ross Strobe
Assistant Director
April 26, 2016