

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0100-01
Bill No.: Perfected SB 18
Subject: Business and Commerce; Banks and Financial Institutions; Cooperatives;
 Corporations; Secretary of State; Veterans
Type: Original
Date: March 30, 2017

Bill Summary: This proposal modifies the law relating to business fees.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
General Revenue	Greater than (\$187,700)	Greater than (\$250,383)	Greater than (\$278,832)
Total Estimated Net Effect on General Revenue	Greater than (\$187,700)	Greater than (\$250,383)	Greater than (\$278,832)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
Technology Trust Fund	(\$55,658)	(\$33,780)	(\$36,950)
Total Estimated Net Effect on <u>Other</u> State Funds	(\$55,658)	(\$33,780)	(\$36,950)

Numbers within parentheses: () indicate costs or losses.
 This fiscal note contains 10 pages.

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

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
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 2018	FY 2019	FY 2020
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Office of the Secretary of State (SOS)** assumed certain fees for the following types of business entities would be waived 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 would 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 would increase over time as the public awareness increases. In light of this, an adoption rate ranging from 65% in fiscal year 2018 to 75% in fiscal year 2020 was assumed. The assumed adoption rate increases annually at 5% increments.

The Business Services Division began by observing projections for the total number of expected filings for FY 2018 through FY 2020 for each of the types of filing affected by this legislation. Those projections were then adjusted to reflect the 9.1% of businesses owned by Veterans and the expected rate at which Veterans would take advantage of the business creation incentives provided by this legislation.

ASSUMPTION (continued)

The impact to both General Revenue and the Technology Trust Fund, including software changes, are projected to be as follows:

<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>
\$243,358	\$284,163	\$315,782

Senate Amendment 2

In response to a similar proposal from 2017 (SCS for SB 183, LR # 0427-03), officials from the **Office of Administration - Division of Budget and Planning (B&P)** noted this proposal would renew the expired Big Government Get Off My Back Act provisions for an additional five years beginning on August 28, 2017; the existing language expired August 28, 2014.

The first provision would prohibit increasing state user fees over this period unless part of federal and General Assembly program implementation. B&P officials assume this could reduce Total State Revenues (TSR) 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.

B&P noted that the second provision would require state agencies to certify any rule (other than those implemented resulting from a federal or General Assembly program) will not adversely impact small businesses with fewer than 25 full or part-time employees. An exception from these criteria would be rules regarding government programs utilizing private contractors that net Missouri taxpayer savings or if the program protects the life, health, or public safety.

The third provision would extend an expired tax deduction for five additional years for small businesses with less than 25 employees that create qualifying jobs paying wages above the county average. The new employee must work an average of 35 hours per week for 52 weeks. The deduction ranges from \$10,000-\$20,000, depending on the inclusion of employer-funded health insurance. In 2014, the Department of Revenue noted this deduction reduced state revenues around \$120,000. B&P officials noted in 2014, businesses with fewer than 50 employees could use the deduction while the proposed language would limit the deduction to businesses with 25 or fewer employees.

B&P officials stated that any claimed amounts could impact the constitutional revenue limit calculation and TSR.

ASSUMPTION (continued)

B&P officials also noted this proposal may encourage other economic activity, but B&P cannot estimate such an amount. Also, this proposal does not preclude a taxpayer concurrently using other state tax credit programs.

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

In response to a similar proposal from 2017 (SCS for SB 183, LR # 0427-03), officials from the **Department of Revenue (DOR)** assumed this proposal would freeze user fees for an additional five years unless implemented by a federal program. The proposal would also extend the deduction for creation of new jobs by a small business, and would modify the definition of "small business" to include those with less than twenty-five employees.

Section 143.173, RSMo.

This section would allow a \$10,000 or \$20,000 deduction for each new job created by a small business. The proposal would include businesses with fewer than twenty-five employees rather than the current fifty employee limit, reducing the number of taxpayers eligible for the deduction.

DOR officials stated that for 2014, 105 Missouri individual income taxpayers filed returns claiming the new jobs deduction in the amount \$1,532,416. Based on a top tax rate of six percent, DOR officials estimated a reduction of \$91,950 to Total State Revenue. In addition, 10 Missouri corporate filers claimed the new jobs deduction in the amount \$450,000. Based on a tax rate of six and one quarter percent, DOR officials estimated a reduction of \$28,125 to Total State Revenue.

DOR officials also noted that limiting the deduction to businesses with less than twenty-five employees could reduce the negative impact on Total State Revenue.

Oversight assumes the reduction in size of eligible small businesses (from fewer than 50 to fewer than 25) would reduce participation in the job creation tax deduction program and will include in this fiscal note an estimated impact less than \$100,000 per year to the General Revenue Fund for the new jobs creation deduction.

Administrative Impact

DOR officials noted the Department would require forms and programming changes to re-authorize this deduction.

ASSUMPTION (continued)

Oversight notes the DOR response did not include an estimate of the cost to implement this proposal and assumes the proposal could be implemented with existing resources. If unanticipated costs are incurred or if multiple proposals are implemented which increase the DOR workload or other costs, resources could be requested through the budget process.

In response to a similar proposal from 2017 (SCS for SB 183, LR # 0427-03), officials from the **Department of Transportation** assumed this proposal would lead to a potential unknown negative impact since it would prohibit fee increases through 2022.

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.

In response to a similar proposal from 2017 (SCS for SB 183, LR # 0427-03), officials from the **Department of Public Safety - Division of Fire Safety** stated the proposal could have a negative impact on their organization since their organization was planning to implement fee increases.

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.

In response to a similar proposal from 2017 (SCS for SB 183, LR # 0427-03), officials from the **Office of the Secretary of State (SOS)** assumed 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, 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 in excess of what 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.

In response to a similar proposal from 2017 (SCS for SB 183, LR # 0427-03), officials from the **Joint Committee on Administrative Rules** stated this legislation is not anticipated to cause a fiscal impact beyond its current appropriation.

ASSUMPTION (continued)

In response to a similar proposal from 2017 (SCS for SB 183, LR # 0427-03), officials from the **Office of the Attorney General** assumed that any potential costs arising from this proposal could be absorbed with existing resources.

Officials from the **Department of Social Services, the Department of Labor and Industrial Relations, the Department of Health and Senior Services, the Missouri Veterans Commission, the Joint Committee on Public Employee Retirement, the Department of Corrections, the Missouri Senate, the Missouri State Employees Retirement System, the Department of Insurance, Financial Institutions and Professional Registration, the Office of the State Courts Administrator, the Office of Administration, the Department of Elementary and Secondary Education, the State Tax Commission, the Missouri Consolidated Health Care Plan, the Office of the State Auditor, the Department of Mental Health** and the **State Emergency Management Agency** each assume the proposal will have no fiscal impact on their respective organizations.

In response to a similar proposal from 2017 (SCS for SB 183, LR # 0427-03), officials from the **Office of the Governor, the Office of the Lieutenant Governor, the Missouri House of Representatives, the Department of Conservation, the Department of Higher Education, the Department of Natural Resources, the Department of Public Safety, Capitol Police, Division of Alcohol and Tobacco Control, Division of Fire Safety, Missouri State Highway Patrol, the Missouri Gaming Commission, the Missouri Lottery Commission, the Missouri Ethics Commission, the Missouri Office of Prosecution Services, the Missouri State Public Defender, the Missouri State Employees Retirement System** and the **MoDOT and Patrol Employees Retirement System** assumed this proposal would have no fiscal impact on their organizations.

<u>FISCAL IMPACT - State Government</u>	FY 2018 (10 Mo.)	FY 2019	FY 2020
GENERAL REVENUE FUND			
<u>Revenue Reduction</u> - SOS - waiving of certain fees for veterans, members of the Missouri National Guard, or any other Active Duty Military	(\$187,700)	(\$250,383)	(\$278,832)
<u>Revenue reduction</u> - New Jobs Creation Tax Credit Program re-authorized	(Less than <u>\$100,000</u>)	(Less than <u>\$100,000</u>)	(Less than <u>\$100,000</u>)
ESTIMATED NET EFFECT ON THE GENERAL REVENUE FUND	Greater than <u>(\$187,700)</u>	Greater than <u>(\$250,383)</u>	Greater than <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	(\$25,658)	(\$33,780)	(\$36,950)
ESTIMATED NET EFFECT TO TECHNOLOGY TRUST FUND	<u>(\$55,658)</u>	<u>(\$33,780)</u>	<u>(\$36,950)</u>
<u>FISCAL IMPACT - Local Government</u>	FY 2018 (10 Mo.)	FY 2019	FY 2020
	<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 proposal 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 either a military spouse or a veteran who resides in Missouri and provides proof of marriage, if applicable, and military service to the Secretary of State.

The proposal would extend the Big Government Get Off My Back Act and modify several provisions relating to the collection of money by public entities.

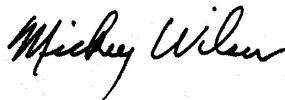
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of the Secretary of State
Office of Administration - Budget and Planning
Department of Revenue
Attorney General's Office
Joint Committee on Administrative Rules
Department of Transportation
Department of Health and Senior Services
Department of Public Safety - Division of Fire Safety
Missouri Senate
Missouri State Employees Retirement System
Department of Insurance, Financial Institutions and Professional Registration
Office of the State Courts Administrator
Office of Administration
Department of Elementary and Secondary Education
State Tax Commission
Missouri Consolidated Health Care Plan
Office of the State Auditor
Department of Mental Health
State Emergency Management Agency
Office of the Governor
Office of the Lieutenant Governor
Missouri House of Representatives
Department of Conservation
Department of Corrections

SOURCES OF INFORMATION (continued)

Department of Higher Education
Department of Labor and Industrial Relations
Department of Natural Resources
Department of Public Safety - Capitol Police
Department of Public Safety - Division of Alcohol and Tobacco Control
Department of Public Safety - Division of Fire Safety
Department of Public Safety - Missouri State Highway Patrol
Department of Public Safety - Missouri Veterans Commission
Department of Social Service - Division of Legal Services, Family Services Division, and
Division of Finance and Administrative Services
Missouri Gaming Commission
Missouri Lottery Commission
Missouri Ethics Commission
Missouri Office of Prosecution Services
Missouri State Public Defender
Missouri State Employees Retirement System
MoDOT and Patrol Employees Retirement System
Joint Committee on Public Employee Retirement



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