

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0517-01
Bill No.: SB 10
Subject: Economic Development; Tax Incentives; Tax Credits
Type: Original
Date: January 11, 2017

Bill Summary: This proposal modifies the Missouri Works program by creating tax incentives for creating jobs in areas of distress.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
General Revenue	(Unknown)	(Unknown)	(Unknown)
Total Estimated Net Effect on General Revenue	(Unknown)	(Unknown)	(Unknown)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 5 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 Administration's Division of Budget and Planning (B&P)** assume this proposal expands the Missouri Works program to include tax incentives for jobs created in an "area of distress". For a period of five years from the date the new jobs are created, or for a period of six years from the date the new jobs are created if the qualified company is an existing Missouri business, retain an amount equal to the withholding tax as calculated under subdivision (30) of section 620.2005 from the new jobs, if the qualified company creates two or more new jobs at a project facility located in an area of distress and the average wage of the new payroll equals or exceeds eighty percent of the county average wage of the county in which the project facility is located.

B&P notes the average amount of authorizations for this program over the last three fiscal years is \$7,521,315 and the average amount of redemptions is \$7,505,706.

Since the number of new jobs which will be created in an area of distress is unknown, the amount this tax incentive could lower General and Total State Revenues is unknown. The calculation of Article X, Section 18(e) could be impacted. This program may encourage other economic activity, but B&P does not have data to estimate the induced revenues. DED may be able to provide additional estimates.

Officials at the **Department of Economic Development** and the **Department of Revenue** each assume there is no fiscal impact from this proposal to their respective department.

Oversight notes the MO Works Program was created in 2013 in HB 184. It replaced the Development tax credit in §32.100, the Rebuilding Communities tax credit in §135.535, the Enhanced Enterprise Zones tax credit in §135.950 and the Quality Jobs tax credit in §620.1875. MO Works was given a \$106 million cap in FY 2014, a \$111 million cap in FY 2015 and a \$116 million cap in FY 2016 and all subsequent years. This \$116 million cap includes outstanding authorizations under the previous tax credits.

To qualify for a tax credit under MO Works a company must create or retain a minimum number of jobs at the project facility with average wages of 80%, 90%, 120% or 140% of the county average wage and pay at least 50% of health insurance premiums. These projects are considered Zone Works, Rural Works, Statewide Works, and Mega Works. This proposal would add another category for Distressed Works. The Distressed Works would require 2 or more jobs at 80% of county average wage.

ASSUMPTION (continued)

Oversight notes the MO Works Program also allows a company to retain withholding tax equal to the amount of new jobs that would be remitted to the state.

Oversight notes this proposal allows companies to receive the MO Works tax credit in distressed areas of the state. This proposal expands the area of the state where MO Works can be issued and possibly the number of companies competing for this tax credit. However, it does not change the cap on the tax credit. Therefore, Oversight notes that increasing the issuances and redemptions with more qualifiers doesn't change the cap that was previously accounted for in the fiscal note creating MO Works.

Oversight notes this proposal would allow companies in the distressed areas of the state to keep their withholding tax. Oversight will show an Unknown impact from this portion of the proposal.

Oversight assumes this proposal would have some positive economic benefits to blighted areas; however, Oversight considers these benefits to be an indirect effect of the proposal and have not reflected them in the fiscal note.

<u>FISCAL IMPACT - State Government</u>	FY 2018 (10 Mo.)	FY 2019	FY 2020
GENERAL REVENUE			
<u>Revenue Reduction</u> - withholding taxes kept by companies in distressed areas	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</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

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

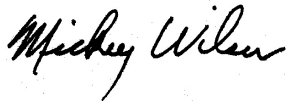
FISCAL DESCRIPTION

This act modifies the Missouri Works program by allowing a qualified company to retain an amount equal to the withholding tax, which would otherwise be withheld and remitted, from new jobs created if the qualified company creates two or more new jobs at a project facility located in an area of distress and the average wage of the new payroll equals or exceeds eighty percent of the county average wage of the county in which the project facility is located. An area of distress is defined as an area of pervasive poverty, unemployment, and general distress; has at least sixty-five percent of the residents with incomes below eighty percent of the median income of Missouri residents; and has a level of unemployment that exceeds one and one-half times the average unemployment rate of the state, as described in the act.

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

Department of Economic Development
Department of Revenue
Office of Administration
Division of Budget and Planning



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Director
January 11, 2017

Ross Strope
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January 11, 2017