COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1607-01
Bill No.: SB 349
Subject: Economic Development; Tax Incentives; Tax Credits
Type: Original
Date: February 10, 2017

Bill Summary: This proposal modifies the Missouri Works Program.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
General Revenue	(Could Exceed $3,087,329)	(Could Exceed $3,000,000)	(Could Exceed $3,000,000)
Total Estimated Net Effect on General Revenue	**(Could Exceed $3,087,329)**	**(Could Exceed $3,000,000)**	**(Could Exceed $3,000,000)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 8 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
Total Estimated Net Effect on All 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

§620.2005, §620.2010, §620.2015 and §620.2020 Missouri Works
Officials at the **Department of Revenue** (**DOR**) assume the provisions of §620.2010 increase the number of tax credits authorized to qualified companies that create new jobs. Subsection 1 allows qualified companies a tax credit equal to two and three-quarters percent of the lesser of new payroll or the projected net fiscal benefit and eliminates the ability to retain an amount equal to their withholding tax. New provisions added to this section allow for two new tax credits. The first authorizes a ten percent tax credit based on the value of real and personal property. The second allows a qualified company a tax credit based on creating 250 new jobs in a distressed area, an enhanced enterprise zone, or where the annual unemployment rate is three percent higher than the most recently published statewide rate.

The Department requires forms changes and programming to implement the provisions of this legislation. The Integrated Tax System requires an additional $87,329 for programming requirements to the personal and corporate tax systems to implement the provisions of this legislation.

The Personal Tax Division would require two Revenue Processing Technicians I ($27,185) for every 6,000 tax credits redeemed. The Corporate Tax Division will require three Revenue Processing Technicians I ($27, 185); one for every 6,000 tax credits redeemed, one for every 4,000 tax credits transferred, and one for every 520 SB 1099 compliance mailings. The Collections & Tax Assistance Division will assume this legislation creates additional customer contacts for Collections & Tax Assistance. The section requires two Revenue Processing Technicians I ($27,185) for contacts on the delinquent and non-delinquent tax lines. Each technician requires CARES equipment and license.

Oversight notes this proposal would implement three new state tax credit programs. Oversight assumes this proposal would change a limited number of computations on corporate tax returns and assumes the proposal would not have a significant impact on the number of returns filed. Oversight also notes a high percentage of income tax returns are prepared online, electronically, or by paid preparers, and assumes there would not be a significant number of additional errors resulting from the changes in this proposal. Oversight assumes that DOR can absorb these credits with existing resources. Should the number of these credits justify additional staff then DOR could seek the needed FTE through the appropriation process.

Officials at the **Department of Economic Development** assume there is no fiscal impact from this proposal.

ASSUMPTION (continued)

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.

Oversight notes that currently the Missouri Works program in §620.2010 allows a company to retain an amount equal to the withholding tax of new jobs created. This proposal would eliminate this new jobs withholding.

Oversight notes this proposal would replace the new jobs withholding with a tax credit equal to two and three quarters percent of new payroll or an amount which creates a projected net fiscal benefit, whichever is less (§620.2010.1). Oversight is unable to determine how many companies would qualify for this tax credit or how much the projected net fiscal benefit will be. Oversight, for fiscal note purposes, will show the impact of this tax credit as could exceed $1 million.

Oversight notes this proposal also creates a new tax credit for a company that makes a significant new capital investment, defined as at least twenty percent of real property that exceeds one million dollars. The tax credit will be issued over a period of five years and shall be up to ten percent of the value of the real and personal property purchases made by the company (§620.2010.3). Oversight is unable to determine how many companies would make the needed capital investment to qualify for this tax credit. Oversight, for fiscal note purposes, will show the impact of this tax credit as could exceed $1 million.

Oversight notes a third new tax credit is created that allows a company that creates more than 250 new jobs in a distressed area a credit for a period of five years in an amount up to two and three quarters a percent of new payroll (§620.2010.4). Oversight notes this proposal requires those new jobs to be paid at least seventy percent of the county average wage. Oversight is unable to determine how many companies would qualify for this tax credit or how much the salary would be of those new jobs. Oversight, for fiscal note purposes, will show the impact of this tax credit as could exceed $1 million.

ASSUMPTION (continued)

Oversight notes that currently the Missouri Works program in §620.2020, has a cap of $116 million. Oversight notes this proposal allows companies approved prior to August 28, 2017 to continue under the rules under which they were approved, including the current cap. Oversight notes that according to this proposal, that all future projects approved after August 28, 2017, shall not be limited as long as they provide a projected net fiscal benefit. Oversight notes this proposal removes the current $116 million cap, while creating three new tax credits that are unlimited. Oversight notes this proposal has the potential to exceed the current $116 million cap.

Oversight notes this proposal clarifies the definition of "new job" and states that no benefits shall be provided to jobs other than new jobs. Oversight is unable to determine if this change in definition would tighten the definition enough to prevent those that previously received benefits from qualifying for those benefits in the future. Oversight will not show an impact in the fiscal note from this change.

Oversight notes this proposal requires that any agreement of benefits include a clawback provisions that requires all benefits in excess of the projected net fiscal benefit be paid back to the state. Oversight notes that the new tax credits are received over a period of at least five years and therefore, the impact of the clawback provision would not occur until outside the fiscal note period. Oversight is unable to determine in the future if this clawback provision would have an impact on the state. Oversight will not show an impact from this portion of the proposal.

FISCAL IMPACT - State Government	FY 2018 (10 Mo.)	FY 2019	FY 2020
GENERAL REVENUE			
Savings - elimination of new jobs withholding tax benefit §620.2010.1	Unknown	Unknown	Unknown
Revenue Reduction - tax credit for new payroll §620.2010.1	(Could exceed $1,000,000)	(Could exceed $1,000,000)	(Could exceed $1,000,000)
Revenue Reduction - tax credit for new capital investment §620.2010.3	(Could exceed $1,000,000)	(Could exceed $1,000,000)	(Could exceed $1,000,000)
Revenue Reduction - tax credit for 250 new jobs in a distressed area §620.2010.4	(Could exceed $1,000,000)	(Could exceed $1,000,000)	(Could exceed $1,000,000)
Cost - DOR one-time computer upgrades	($87,329)	$0	$0
ESTIMATED NET EFFECT ON GENERAL REVENUE	**(Could Exceed $3,087,329)**	**(Could Exceed $3,000,000)**	**(Could Exceed $3,000,000)**

FISCAL IMPACT - Local Government	FY 2018 (10 Mo.)	FY 2019	FY 2020
	$0	**$0**	**$0**

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 several provisions relating to financial incentives for job creation, the Missouri Works program.

The definition of "full-time employee" is changed to provide that qualified companies shall pay at least fifty percent of an employee's health insurance premiums unless the employee opts out in writing and obtains health insurance from another source.

FISCAL DESCRIPTION (continued)

The definition of "new job" is changed to prohibit a job from being considered a new job because of a change of ownership in the company unless the company ceases to do business, there is a break in employment, and the company is subsequently restarted by new ownership, as described in the act.

A new definition of "owner" is included, which is defined as a person with an ownership interest in a company. The term shall not include persons with less than a ten percent ownership interest or persons whose interest is solely through an employee stock ownership plan, as described in the act.

The definition of "project facility base payroll" is changed to provide that the amount of base payroll shall be equal to or greater than the previous year's base payroll while keeping the number of employees in the base constant. The company may choose the method of reporting the number of employees in the base, but the method shall remain in effect throughout the benefit period.

The definition of "projected net fiscal benefit" is changed to include all other Department of Economic Development business development programs in the calculation of the projected net fiscal benefit.

The definition of “qualified company” is changed to exclude professional service companies with less than fifty-one percent of their annual income generated from outside the state.

A new definition of "significant new capital investment" is included, which is defined as an investment in real and tangible personal property for the purpose of locating or expanding in the state, of which at least twenty percent shall be real property, which shall exceed one million dollars.

A new definition of "wages" is included, which is defined as the value shown in box sixteen of the employee W-2 tax form. (§620.2005)

This act eliminates the withholding tax retention benefit from the entitlement program and replaces it with a tax credit in an amount equal to 2.75% of new payroll, or an amount which creates a net positive fiscal impact, whichever is less. This act also increases the amount of the discretionary tax credits from 6% of new payroll to 6.25% of new payroll.

This act creates two new benefit categories. The first includes a tax credit for qualified companies that make a significant new capital investment in an amount up to 10% of the value of

FISCAL DESCRIPTION (continued)

real and personal property purchases. The second includes a tax credit for a qualified company which creates more than two hundred fifty new jobs in a distressed area, in an enhanced enterprise zone, or in an area of high unemployment, as described in the act, in an amount up to 2.75% of new payroll.

This act eliminates the withholding tax retention benefit for the Mega Works 120 and 140 entitlement program and replaces it with a tax credit in an amount equal to the withholding benefit. (§620.2010)

This act changes the cap on the retained jobs withholding benefit from a fiscal year cap to a calendar year cap. (§620.2015)

This act provides that companies participating under the program prior to the effective date of this act shall continue under the same terms and conditions as were in place at such time.

This act also provides that the amount of benefits awarded under the program shall not be capped so long as no benefit provided exceeds a net positive fiscal impact and that all projects stipulate a clawback of amounts equal to any benefits found to be in excess of the net positive fiscal impact. (Section 620.2020)

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

Mickey Wilson

Mickey Wilson, CPA
Director
February 10, 2017

Ross Strope
Assistant Director
February 10, 2017

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