

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4092-01
Bill No.: HB 1518
Subject: Business and Commerce; Corporations; Taxation and Revenue - Income; Tax Credits
Type: Original
Date: January 11, 2016

Bill Summary: This proposal allows certain small businesses to be eligible to claim any state tax credit, deduction, and exemption from tax that specified corporations are allowed to claim.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
General Revenue	(\$137,942) to (Could exceed \$10,137,942)	(\$90,992) to (Could exceed \$10,090,992)	(\$91,731) to (Could exceed \$10,091,731)
Total Estimated Net Effect on General Revenue	(\$137,942) to (Could exceed \$10,137,942)	(\$90,992) to (Could exceed \$10,090,992)	(\$91,731) to (Could exceed \$10,091,731)

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
General Revenue	2 FTE	2 FTE	2 FTE
Total Estimated Net Effect on FTE	2 FTE	2 FTE	2 FTE

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	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Section 135.1624, RSMo. - Small business tax benefits:

Officials from the **Office of Administration - Division of Budget and Planning (B&P)** assume the proposed legislation would not result in any additional costs or savings to their organization. B&P officials also assume this proposal would reduce Total State Revenues, and could have an impact on the calculation required by Article X, Section 18(e) of the state constitution.

B&P officials noted this proposal would allow any small business with an adjusted gross income of less than \$500,000 to claim any state tax preference provided to any corporation, and assume the proposal could reduce Total State Revenue by an unknown amount which could exceed \$10 million. B&P officials assume the proposal could impact economic activity, but could not estimate the potential for induced revenues.

Officials from the **Department of Revenue (DOR)** stated this proposal would make the tax credits, deductions, and exemptions currently available to corporations available to certain small businesses.

Fiscal Impact

DOR officials assume the expansion of tax credits, deductions and exemptions would create a negative impact on Total State Revenue of more than \$10 million annually.

Oversight assumes this proposal could increase the utilization of tax credits, deductions, and exemptions by small businesses. Oversight also assumes the small business claiming the benefits would have to meet the general requirements for the various programs; therefore, the actual increase in use of tax benefits and resulting revenue reductions is unknown. For fiscal note purposes, Oversight will indicate an impact from \$0 (no increase in the use of business tax benefits) to more than \$10 million per year for the General Revenue Fund.

ASSUMPTION (continued)

Administrative impact

DOR officials assume Collections and Tax Assistance would require two additional Tax Collections Technicians I for additional contacts on the delinquent and non-delinquent tax lines, and noted each technician would require CARES equipment and licenses.

The DOR response for the two additional employees with related benefits, equipment, and expense totaled \$87,948 for FY 2017, \$90,992 for FY 2018 and \$91,734 for FY 2019.

Oversight assumes the DOR estimate of expense and equipment cost for the new FTE could be overstated. If DOR is able to use existing desks, file cabinets, chairs, etc., the estimate for equipment could be reduced by roughly \$6,400 per new employee.

IT cost

DOR officials provided an estimate of the IT cost to implement this provision of \$75,006 based on 1,000.8 hours at \$75 per hour to make changes to the DOR systems.

Oversight notes the DOR estimate of IT cost to implement this proposal was based on the current state contract rate for IT consulting services. DOR officials told us OA-ITSD (DOR) had informed them employees would not be available in FY 2017 for projects required to implement new legislation and contractors would be required.

Oversight assumes implementing new legislation on a yearly basis is part of the core responsibilities included in the budget of OA-ITSD (DOR), and has calculated the estimated number of hours available for programming work and average cost of salary plus benefits for OA-TSD (DOR) programmers. Oversight notes the estimated hours to implement this proposal would represent approximately $(1,000 \text{ hours} / 1,744 \text{ hours}) = 57\%$ of one programmer's available time for a year; the cost to implement this proposal with an employee would be approximately $(1,000 \times \$50) = \$50,000$.

For fiscal note purposes, Oversight will assume OA-ITSD (DOR) could implement this proposal with employees rather than contractors; if this proposal would create an unanticipated additional workload or if multiple proposals are implemented which would require more staffing than anticipated, OA-ITSD (DOR) could request resources through the budget process.

ASSUMPTION (continued)

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 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.

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

Officials from the **Department of Economic Development - Division of Business and Community Services (DED)** assume this proposal would have no fiscal impact to their organization.

<u>FISCAL IMPACT - State Government</u>	FY 2017 (10 Mo.)	FY 2018	FY 2019
GENERAL REVENUE FUND			
<u>Cost - DOR</u>			
Section 135.1624			
Personal Service	(\$44,420)	(\$53,837)	(\$54,375)
Fringe Benefits	(\$28,956)	(\$34,892)	(\$35,039)
Expense and Equipment	(\$14,566)	(\$2,263)	(\$2,320)
IT cost	(\$50,000)	\$0	\$0
<u>Total cost - DOR</u>	(\$137,942)	(\$90,992)	(\$91,734)
FTE change - DOR	2 FTE	2 FTE	2 FTE
 <u>Revenue Reduction - DOR</u>			
Small business tax benefits	\$0 to (More than	\$0 to (More than	\$0 to (More than
Section 135.1624	<u>\$10,000,000)</u>	<u>\$10,000,000)</u>	<u>\$10,000,000)</u>
	 <u>(\$137,942) to</u>	 <u>(\$90,992) to</u>	 <u>(\$91,734) to</u>
ESTIMATED NET EFFECT TO	<u>Could exceed</u>	<u>Could exceed</u>	<u>Could exceed</u>
THE GENERAL REVENUE FUND	<u>\$10,137,942)</u>	<u>\$10,090,992)</u>	<u>\$10,091,734)</u>
 Estimated Net FTE Change for the			
General Revenue Fund	2 FTE	2 FTE	2 FTE
 <u>FISCAL IMPACT - Local Government</u>			
	FY 2017 (10 Mo.)	FY 2018	FY 2019
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

This proposal would have a direct fiscal impact to small businesses which qualify for additional tax credits, deductions or exemptions.

FISCAL DESCRIPTION

Beginning January 1, 2017, this proposal authorizes a small business with no more than \$500,000 in Missouri adjusted gross income to be eligible to claim any state tax credit, tax deduction, and any other exemption from tax allowed to be claimed by a corporation in direct proportion to the average annual Missouri adjusted gross income of corporations reported in each tax year divided by three.

The provisions of the bill will expire December 31 six years from the effective date.

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 Revenue
Office of Administration - Budget and Planning
Department of Economic Development
Office of the Secretary of State
Joint Committee on Administrative Rules



Mickey Wilson, CPA
Director
January 11, 2016

Ross Strobe
Assistant Director
January 11, 2016