

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0145-03
Bill No.: Perfected HCS for HB 45
Subject: Business and Commerce; Taxation and Revenue - General
Type: Original
Date: January 19, 2011

Bill Summary: Would change the Big Government Get Off My Back Act, and provide an income tax deduction for certain small businesses that create new full-time jobs.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
General Revenue	(More than \$224,416)	(More than \$301,062)	(More than \$303,111)
Total Estimated Net Effect on General Revenue Fund	(More than \$224,416)	(More than \$301,062)	(More than \$303,111)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 13 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
General Revenue	5	5	5
Total Estimated Net Effect on FTE	5	5	5

- Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).
- Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of the State Auditor**, the **Office of the State Treasurer**, the **Missouri Senate**, the **Office of Administration**, **Administrative Hearing Commission**, the **Department of Corrections**, the **Department of Higher Education**, the **Department of Labor and Industrial Relations**, the **Department of Mental Health**, the **Department of Public Safety**, **Division of Fire Safety**, the **Missouri Highway Patrol**, the **Missouri State Employees Retirement System**, and the **Missouri Ethics Commission**, assume there would be no fiscal impact to their organizations as a result of this proposal.

Officials from the **Office of State Courts Administrator**, the **Department of Conservation**, the **Missouri Public Service Commission**, the **Department of Public Safety**, **Division of Alcohol and Tobacco**, and **Capitol Police**, the **Missouri Gaming Commission**, the **Department of Agriculture**, the **State Tax Commission**, the **Missouri Gaming Commission**, the **Office of Prosecution Services**, the **Missouri Consolidated Health Care Plan**, the **Office of State Public Defender**, the **Missouri Lottery**, and the **Joint Committee on Public Employee Retirement** assumed a previous version of this proposal would have no fiscal impact on their organizations.

Officials from the **Office of the Governor** assumed there would be no added cost to their organization as a result of a previous version of this proposal.

Officials from the **Department of Public Safety**, **Missouri Veterans Commission** assume this proposal could have a fiscal impact to their organization from zero to unknown.

Officials from the **Department of Elementary and Secondary Education** noted that the proposal would reduce state revenues and decrease the amount of money available for public schools and public school students.

ASSUMPTION (continued)

In response to a previous version of this proposal, officials from the **Office of the Secretary of State** (SOS) stated that 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 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.

Officials from the **Office of the Attorney General** assumed that any costs arising from a previous version of this proposal could be absorbed with existing resources.

Officials from the **Department of Economic Development** (DED) assume this proposal would have no fiscal impact on their organization.

DED officials also provided an estimate of the additional revenue which could be generated by new jobs created. DED officials stated they compared the 2010 Revenue Estimate after refunds from the OA Budget Summary, and recent payroll employment figures for the state, to calculate an estimated amount of state government revenue generated per job of \$2,630.

Oversight assumes there would be some positive economic benefit to the state from new jobs created as a result of implementing this program, but Oversight considers those benefits to be indirect, and have not reflected them in this fiscal note.

ASSUMPTION (continued)

Officials from the **Office of Administration, Division of Budget and Planning** (BAP) assumed a previous version of this proposal would not result in additional costs or savings to their organization.

The proposal would extend the provisions of the BGGOMBA for an additional year. While this would not reduce general and total state revenue, it could slow growth in user fees, and could lead to budget shortfalls for certain programs. BAP defers to the administering agencies for related impacts.

The proposal would also create a tax deduction, for the years 2011-2014, for any small business, as defined in Section 1.310, that creates a qualifying job. However, no explicit definition of small business was given in this section. The deduction ranges from \$10,000 to \$20,000, depending on the wage level of the job and the inclusion of employer-funded health insurance. At a 6% marginal rate, the proposed deduction would lead to a tax reduction of \$600 - \$1200 per new qualifying job.

BAP also noted the following:

- * According to the United States Census Bureau (USCB), 94% of Missouri firms would meet this definition, and those firms account for 60% of total employment.
- * Moody's Analytics, in its' most recent forecast for Missouri, projects average growth in employment of 53,000 per year for the years 2011-2014.
- * The USCB estimates 56% of citizens are covered by employer-provided insurance.
- * Therefore, using these three estimates and the cost estimates above, BAP estimates this may reduce general and total state revenues by \$10.7 million to \$21.4 million each year. While the new jobs may encourage economic growth, BAP cannot estimate the induced revenues from that potential economic growth.

ASSUMPTION (continued)

Oversight notes that only 167 additional employees, at the lowest proposed tax deduction amount, would create a General Revenue Fund reduction of \$100,000. Oversight notes that the cost estimate provided by the Office of Administration, Division of Budget and Planning (BAP) was based on an economic forecast of expected employment growth; neither BAP nor Oversight is able to determine a number of additional jobs, if any, which could be attributed to this proposal. Therefore, for fiscal note purposes Oversight will indicate a fiscal impact greater than (\$100,000) per year for the General Revenue Fund for this proposal.

Officials from the **Department of Public Safety, Office of the Director**, assumed that any costs associated with a previous version of this proposal could be assumed with existing resources.

Officials from the **Joint Committee on Administrative Rules** assume this proposal could have some fiscal impact on their organization due to the extension of the limitation on filing certain rules from a four-year period to a five-year period. This would require scrutiny of agency rules for an additional year. However, any fiscal impact can be absorbed with current resources.

Officials from the **Department of Health and Senior Services (DOHSS)** stated in response to a previous version of this proposal that if the General Assembly does not authorize a federal program, it would likely result in the loss of associated federal funding. The loss of federal funding could have a significant impact on their organization.

Officials from the **Department of Insurance, Financial Institutions, and Professional Registration (DIFP)** assumed a previous version of this proposal could have an unknown impact on their organization due to potential changes in federal mandates related to their organization.

Officials from the **Department of Natural Resources** stated that they would not anticipate a significant direct fiscal impact from this proposal.

Officials from the **Department of Social Services, Office of the Director, Division of Youth Services, and Missouri HealthNet Division** assume this proposal would have no fiscal impact on their organizations.

ASSUMPTION (continued)

Officials from the **Department of Social Services, Division of Children's Services, Family Support Division, Division of Legal Services** assume this proposal would have an unknown impact on their organization.

Officials from the **Department of Transportation** (MoDOT) assume the proposal could have a fiscal impact on MoDOT. The proposal stated that any federal mandate implemented by the state must be statutorily authorized by the General Assembly. Whether this could result in MoDOT losing any of its federal funds is unknown.

Second, the proposal would extend the Act's duration. The statute currently states that the Act will be effective for 4 years, but the bill would increase its duration to 5 years. Thus, no user fees imposed by the state, including those imposed by administrative rule, could increase for 5 years (ending on August 28, 2014), unless the fee increase is to implement a federal program administered by the state or is otherwise approved by the the General Assembly, with certain exceptions. This proposal would prohibit MoDOT from increasing user fees to help offset the cost of administering programs.

With respect to the DOHSS, DOSS, DIFP, and MoDOT responses, **Oversight** assumes that any fiscal impact resulting from the proposed requirement for the General Assembly to authorize a federal program would be contingent on some future action of the General Assembly, and will not include such impact in this fiscal note.

ASSUMPTION (continued)

Officials from the **Department of Revenue** (DOR) assume this proposal would create an income tax deduction for small businesses that create new full-time jobs.

Beginning January 1, 2011 and ending December 31, 2014, taxpayers would be allowed a deduction for each new full-time job created by the small business in the taxable year. The deduction would be:

- * \$10,000 for each new, full-time job created with an annual salary at least equal to the average annual county wage;
- * \$20,000 for each new, full-time job created with an annual salary at least equal to the average annual county wage if the business offers health insurance and pays fifty percent (50%) of the premiums;

DOR would create rules to implement the provisions and would create procedural requirements to claim the deduction. DOR would also need to create forms and instructions, and DOR and OA-ITSD (DOR) would need to make programming changes to the Corporation Income Tax System (COINS), the Corporate and Franchise Tax System (CAFÉ), the Corporate Electronic Filing Specifications (MeFile), the Data Warehouse (EDW), the Individual Income Tax Processing System, and the Case Audit Management System (CAMS).

The provisions would sunset December 31 three years after the effective date, unless re-authorized by the General Assembly.

ASSUMPTION (continued)

DOR officials assumed:

- * Personal Tax would require two additional Temporary Tax Employees for key entry, one additional FTE Revenue Processing Technician I (Range 10, Step L) per 19,000 additional errors, and one additional FTE Revenue Processing Technician I (Range 10, Step L) per 2,400 pieces of correspondence.
- * Collections and Tax Assistance would require one FTE additional Tax Collection Technician I (Range 10, Step L) for every additional 24,000 contacts annually to the non-delinquent tax line and one additional FTE Revenue Processing Technician I (Range 10, Step L) for every additional 4,800 contacts annually to the field offices.
- * Corporate Tax would require one additional FTE Revenue Processing Technician I (Range 10, Step L) for every 2,600 additional pieces of correspondence

DOR officials provided an estimate of the total administrative cost to implement this proposal, including five additional employees and related benefits and expense and equipment of \$206,312 for FY 2012, \$216,165 for FY 2013, and \$218,402 for FY 2014.

Oversight has, for fiscal note purposes only, changed the starting salary for the additional positions to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees for a six month period and the policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. Oversight has also adjusted the DOR expense and equipment estimate in accordance with OA budget guidelines and finally, Oversight assumes that a small number of additional employees could be accommodated in existing office space.

Oversight assumes this proposal would have an impact for DOR beginning with the processing of 2011 tax returns in January, 2012, and has included salary costs for six months of FY 2012.

ASSUMPTION (continued)

Oversight also assumes the DOR estimate of expense and equipment cost for additional FTE could be overstated. If DOR is able to use existing equipment such as desks, file cabinets, chairs, etc., the estimate for equipment for fiscal year 2012 could be reduced by roughly \$5,000 per employee.

DOR provided an estimate of the IT cost to implement this proposal of \$13,356 based on 504 hours of programming time for OA-ITSD(DOR) to make changes to the individual income tax processing system, (MINITS) and the corporate income tax processing system (COINS).

Oversight assumes OA-ITSD (DOR) is provided with core funding to handle a certain amount of activity each year. Oversight assumes OA-ITSD (DOR) could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, OA-ITSD (DOR) could request funding through the appropriation process.

<u>FISCAL IMPACT - State Government</u>	FY 2012 (10 Mo.)	FY 2013	FY 2014
GENERAL REVENUE FUND			
<u>Revenue reduction</u>			
Additional deductions	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>
<u>Cost - Department of Revenue</u>			
Additional deductions			
Salaries (5 FTE)	(\$56,700)	(\$114,534)	(\$115,679)
Temporary employees	(\$7,800)	(\$15,756)	(\$15,914)
Benefits	(\$33,759)	(\$68,194)	(\$68,876)
Equipment and expense	<u>(\$26,157)</u>	<u>(\$2,578)</u>	<u>(\$2,642)</u>
Total	<u>(\$124,416)</u>	<u>(\$201,062)</u>	<u>(\$203,111)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(More than \$224,416)</u>	<u>(More than \$301,062)</u>	<u>(More than \$303,111)</u>
Estimated Net FTE Effect on General Revenue Fund	5	5	5

<u>FISCAL IMPACT - Local Government</u>	FY 2012 (10 Mo.)	FY 2013	FY 2014
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

This proposal could have a direct fiscal impact to small businesses which would qualify for the additional income tax deductions created by this proposal.

FISCAL DESCRIPTION

This proposal would provide an income tax deduction for certain small businesses that create new full-time jobs.

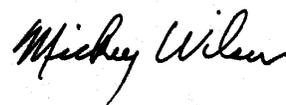
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of State Courts Administrator
Office of the Governor
Office of the Secretary of State
Office of the State Auditor
Office of the Attorney General
Office of the State Treasurer
Missouri Senate
Office of Administration
 Administrative Hearing Commission
 Division of Budget and Planning
Department of Agriculture
Department of Corrections
Department of Conservation
Department of Economic Development
Department of Elementary and Secondary Education
Department of Health and Senior Services
Department of Higher Education

SOURCES (continued)

Department of Insurance, Financial Institutions, and Professional Registration
Department of Labor and Industrial Relations
Department of Mental Health
Department of Natural Resources
Department of Public Safety
 Office of the Director
 Division of Alcohol and Tobacco
 Capitol Police
 Division of Fire Safety
 Missouri Gaming Commission
 Missouri Veterans Commission
Missouri Highway Patrol
Department of Revenue
Department of Social Services
 Office of the Director
 Division of Children's Services
 Family Support Division
 Missouri HealthNet Division
 Division of Legal Services
 Division of Youth Services
Department of Transportation
Joint Committee on Administrative Rules
Joint Committee on Public Employee Retirement
Missouri Ethics Commission
Office of State Public Defender
Missouri Lottery
Missouri Consolidated Health Care Plan
Missouri State Employees Retirement System



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