

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 0145-06  
Bill No.: Truly Agreed To and Finally Passed SS for SCS for HCS for HB 45  
Subject: Business and Commerce; Taxation and Revenue - General  
Type: Original  
Date: June 3, 2011

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

**FISCAL SUMMARY**

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

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

Numbers within parentheses: ( ) indicate costs or losses.  
This fiscal note contains 12 pages.

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

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

- 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).

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

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## FISCAL ANALYSIS

### ASSUMPTION

Officials from the **Office of the Governor** assumed there would be no added cost to their organization as a result 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** assume that any costs arising from this proposal could be absorbed with existing resources.

Officials from the **Office of State Courts Administrator**, the **Office of the State Auditor**, the **Office of the State Treasurer**, the **Missouri Senate**, the **Missouri House of Representatives**, the **Office of Administration**, the **Department of Agriculture**, the **Department of Conservation**, 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**, **State Emergency Management Agency**, and **Missouri Veterans Commission**, the **Department of Social Services**, the **Missouri State Employees Retirement System**, the **Missouri Consolidated Health Care Plan**, the **Administrative Hearing Commission**, the **Missouri Ethics Commission**, the **Missouri Gaming Commission**, the **Missouri Lottery**, and the **State Tax Commission**, assume there would be no fiscal impact to their organizations from this proposal.

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

ASSUMPTION (continued)

Officials from the **Joint Committee on Administrative Rules** (JCAR) assume this proposal would not cause a fiscal impact to their organization beyond its current appropriation.

Officials from the **Office of Administration, Division of Budget and Planning** (BAP) assume 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 that creates a qualifying job. The deduction would range 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 also 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. Employers with additional qualifying employees would be able to claim the deduction; therefore, Oversight will indicate a fiscal impact greater than (\$100,000) per year for the General Revenue Fund for fiscal note purposes.

Officials from the **Department of Health and Senior Services** (DOHSS) stated 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 **Missouri Highway Patrol** stated that the proposal could result in a loss of federal funding for programs if those programs were not approved by the General Assembly, and assume this could lead to an unknown impact to their organization.

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 will not reflect that potential revenue in this fiscal note.

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

ASSUMPTION (continued)

Officials from the **Department of Transportation** (MoDOT) assume this proposal could have a fiscal impact on their organization. The proposal states 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 from four years to five 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 General Assembly, with certain exceptions. This proposal would prohibit MoDOT from increasing user fees to help offset the cost of administering programs.

**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.

Officials from the **Department of Insurance, Financial Institutions, and Professional Registration** (DIFP) assume 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 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; or
- \* \$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.

ASSUMPTION (continued)

DOR would create rules to implement the provisions and develop procedures for filers 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.

Administrative impact

- \* DOR officials assumed that 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.
- \* DOR officials also assumed that 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.
- \* finally, DOR officials assumed that 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 \$215,761 for FY 2012, \$217,724 for FY 2013, and \$220,000 for FY 2014.

ASSUMPTION (continued)

**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.

**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.

IT impact

DOR officials provided an estimate of the IT cost to implement this proposal of \$53,424 based on 2,016 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
<b>GENERAL REVENUE FUND</b>			
<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	(\$26,157)	(\$2,578)	(\$2,642)
Total	<u>(\$124,416)</u>	<u>(\$201,062)</u>	<u>(\$203,111)</u>
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b><u>(More than \$224,416)</u></b>	<b><u>(More than \$301,062)</u></b>	<b><u>(More than \$303,111)</u></b>
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 change the Big Government Get Off My Back Act.

Any federal mandate compelling the state to enact, enforce, or administer a federal regulatory program would be subject to authorization through appropriation or statutory enactment. The proposal would also extend for one additional year the restrictions on state-imposed user fee increases and the requirement for any state agency proposing a rule to certify that it would not have an adverse impact on small businesses, that it is necessary to protect the life, health, or safety of the public, or that a small business would be exempt from the rule. The proposal would revise the definition of “small business” to include businesses with fewer than 50 employees instead of 25 employees.

In addition, the proposal would authorize a small business income tax deduction for years 2011 through 2014 for each full-time job created with an annual salary of at least the county average wage as determined by the Department of Economic Development. A new employee would be required to work at least an average of 35 hours per week for a 52-week period before the employer could qualify for the deduction, and the deduction would be \$10,000 for each new full-time job created or \$20,000 for each full-time job if the business offers health insurance and pays at least 50% of the premiums.

The provisions would expire on December 31 three years from the effective date.

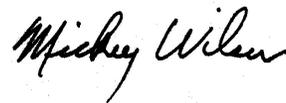
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

## SOURCES OF INFORMATION

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  
Missouri House of Representatives  
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  
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  
    Division of Fire Safety  
    Missouri Gaming Commission  
    State Emergency Management Agency  
    Missouri Veterans Commission  
Missouri Highway Patrol  
Department of Revenue  
Department of Social Services

SOURCES (continued)

Department of Transportation  
State Tax Commission  
Joint Committee on Administrative Rules  
Missouri Ethics Commission  
Missouri Lottery  
Missouri Consolidated Health Care Plan  
Missouri State Employees Retirement System



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