

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2051-02
Bill No.: Perfected HCS for HB 850
Subject: Business and Commerce; Tax Credits; Economic Development; Economic Development Department
Type: Original
Date: April 9, 2013

Bill Summary: This proposal would create the "Bring Jobs Home Act".

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
General Revenue	(More than \$302,149)	(More than \$300,713)	(More than \$302,777)
Total Estimated Net Effect on General Revenue Fund	(More than \$302,149)	(More than \$300,713)	(More than \$302,777)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 9 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
General Revenue	5 FTE	5 FTE	5 FTE
Total Estimated Net Effect on FTE	5 FTE	5 FTE	5 FTE

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 2014	FY 2015	FY 2016
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Section 620.2425, RSMo. - Bring Jobs Home Act:

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** assume this proposal would not have a fiscal impact to their organization in excess of existing resources.

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** assume this proposal would not result in any additional costs or savings to their organization.

BAP officials noted the proposal would create the Bring Jobs Home Act, which would establish a deduction for eligible relocation expenses. To the extent these amounts could be deducted from individual income taxes, this proposal would reduce General and Total State Revenues by up to 6 percent of the eligible expenses. BAP officials stated they could not estimate the impact.

Officials from the **Department of Economic Development (DED)** assume this proposal would create the Bring Jobs Home Act, which would give a tax deduction for up to 20% of eligible expenses paid by a business that relocates to Missouri. The Department of Economic Development - Division of Business and Community Services would implement the program.

Fiscal impact

DED officials noted there is no annual or aggregate cap on the program, and also assume the proposal would result in an unknown negative fiscal impact over \$100,000.

ASSUMPTION (continued)

Administrative impact

DED officials assume three additional employees would be required to administer the program. The additional employees would include one each Economic Development Incentive Specialist III, II, and I. The additional employees would be responsible for establishing procedures, reviewing and approving program applications to determine eligibility, reviewing tax deduction applications to make sure they meet program criteria, drafting and sending deduction awards, and ensuring compliance with the program.

The DED response included three additional employees; the total estimated cost to implement the program was \$162,266 for FY 2014, \$174,091 for FY 2015, and \$176,002 for FY 2016.

Oversight assumes the DED estimate of expense and equipment cost for the new employees could be overstated. If DED is able to use existing desks, file cabinets, chairs, etc., the estimate for equipment could be reduced by roughly \$6,000 per additional employee.

Oversight notes this version of the proposal allows an additional deduction for twenty percent of eligible expenses and assumes there would be no need for application, award, and redemption procedures. Oversight assumes one additional DED employee would be required for the eligibility and compliance procedures. If unanticipated costs are incurred or if multiple proposals are enacted which increase the DED workload, resources could be requested through the budget process.

Oversight has, for fiscal note purposes only, changed the starting salary for the additional employee 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 and policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. Oversight has also adjusted the DOR estimate of equipment and expense in accordance with OA budget guidelines. Finally, Oversight assumes a limited number of additional employees could be accommodated in existing office space.

Officials from the **Department of Revenue (DOR)** assume this proposal would create the Bring Jobs Home Act and would define terms applicable to the proposed new statute sections. DOR officials noted this version included a definition of taxpayers eligible for the deduction.

ASSUMPTION (continued)

The in-sourcing expenses deduction for any tax year would equal 20% of eligible expenses. The proposal would not allow a deduction unless the number of full time equivalent employees for the year of the claim exceeded the number of full time equivalent employees for the last year ending before the taxpayer paid or incurred eligible expenses.

In addition, the proposal would not allow a deduction for any expenses incurred when dissolving a business unit in Missouri and relocating such business unit to another state.

The Departments of Revenue and Economic Development would create rules to implement the provisions of this section, the Department of Revenue would need to make forms changes, and the Department of Revenue and OA - ITSD (DOR) would need to make programming changes to various tax systems.

Fiscal impact

DOR officials assumed the proposal would create an unknown, negative impact on Total State Revenue.

IT impact

DOR officials provided an estimate of the IT cost to implement this proposal of \$22,722 based on 840 hours of programming to make changes to DOR systems.

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.

ASSUMPTION (continued)

Administrative impact

DOR officials assumed Personal Tax would require one additional Revenue Processing Technician I (Range 10, Step L) per 19,000 errors and one additional Revenue Processing Technician I (Range 10, Step L) per 2,400 pieces of correspondence. In addition, Corporate Tax would require one additional Revenue Processing Technician I (Range 10, Step L) per 7,800 additional errors with CARES phone system and one additional Revenue Processing Technician I (Range 10, Step L) per 2,600 additional pieces of correspondence generated with CARES phone system. The DOR response included four additional employees and related equipment and expense.

Oversight notes the total estimated DOR cost including four additional employees, employee benefits, and equipment and expense would total \$184,725 for FY 2014, \$163,136 for FY 2015, and \$164,850 for FY 2016.

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 \$6,000 per employee.

Oversight has, for fiscal note purposes only, changed the starting salary for the additional employees 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 and policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. Oversight has also adjusted the DOR estimate of equipment and expense in accordance with OA budget guidelines. Finally, Oversight assumes a limited number of additional employees could be accommodated in existing office space.

For fiscal note purposes, **Oversight** assumes this proposal would result in a net revenue reduction for the General Revenue Fund in excess of \$100,000 per year. Oversight also assumes the creation of a new program in this proposal could have a positive economic impact on the state; however, Oversight considers this to be indirect impact of the proposal and will not reflect it in the fiscal note.

ASSUMPTION (continued)

Amendment 1

Oversight notes this amendment would clarify definitions in this proposal and assumes it would have no fiscal impact.

<u>FISCAL IMPACT - State Government</u>	FY 2014 (10 Mo.)	FY 2015	FY 2016
GENERAL REVENUE FUND			
<u>Cost - DED</u>			
Relocation tax deduction			
Section 620.20425			
Salaries	(\$31,700)	(\$38,040)	(\$38,420)
Benefits	(\$16,086)	(\$19,303)	(\$19,496)
Equipment and expense	<u>(\$7,248)</u>	<u>(\$600)</u>	<u>(\$615)</u>
Total	(\$55,034)	(\$57,943)	(\$58,531)
FTE change - DED	1 FTE	1 FTE	1 FTE
<u>Cost - DOR</u>			
Relocation tax deduction			
Section 620.20425			
Salaries	(\$77,120)	(\$92,544)	(\$93,469)
Benefits	(\$39,135)	(\$46,961)	(\$47,431)
Equipment and expense	<u>(\$30,860)</u>	<u>(\$3,265)</u>	<u>(\$3,346)</u>
Total	(\$147,115)	(\$142,770)	(\$144,246)
FTE change - DOR	4 FTE	4 FTE	4 FTE
<u>Revenue reduction - DOR</u>			
Relocation tax deduction			
Section 620.2425			
	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	(More than <u>\$302,149</u>)	(More than <u>\$300,713</u>)	(More than <u>\$302,777</u>)
Estimated Net FTE Change for the General Revenue Fund	5 FTE	5 FTE	5 FTE

<u>FISCAL IMPACT - Local Government</u>	FY 2014 (10 Mo.)	FY 2015	FY 2016
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

This proposal would have a direct fiscal impact to any small business which had qualifying expenses, relocated to Missouri, and met the employee retention requirements.

FISCAL DESCRIPTION

The proposed legislation would provide allow a deduction for 20% of eligible expenses incurred by a business which relocated to Missouri. The program would sunset six years after its effective date unless re - authorized.

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



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