COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 6538-01
Bill No.: HB 2268
Subject: Business and Commerce; Corporations; Tax Credits; Employees- Employers
Type: Original
Date: April 10, 2014

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Bill Summary: This proposal authorizes a tax credit for companies with an employee stock ownership plan.

**FISCAL SUMMARY**

| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2015 | FY 2016 | FY 2017 |
| General Revenue | $0 to ($10,000,000) | $0 to ($10,000,000) | $0 to ($10,000,000) |
| | | | |
| **Total Estimated Net Effect on General Revenue Fund** | **$0 to ($10,000,000)** | **$0 to ($10,000,000)** | **$0 to ($10,000,000)** |

| ESTIMATED NET EFFECT ON OTHER STATE FUNDS | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2015 | FY 2016 | FY 2017 |
| | | | |
| | | | |
| **Total Estimated Net Effect on Other State Funds** | **$0** | **$0** | **$0** |

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 5 pages.

| ESTIMATED NET EFFECT ON FEDERAL FUNDS | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2015 | FY 2016 | FY 2017 |
| | | | |
| | | | |
| **Total Estimated Net Effect on All Federal Funds** | **$0** | **$0** | **$0** |

| ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE) | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2015 | FY 2016 | FY 2017 |
| | | | |
| | | | |
| **Total Estimated Net Effect on FTE** | **0** | **0** | **0** |

☐ 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 2015 | FY 2016 | FY 2017 |
| **Local Government** | **$0** | **$0** | **$0** |

## FISCAL ANALYSIS

ASSUMPTION

Officials at the **Office of Administration's Division of Budget and Planning** (**BAP**) assume this proposal would not fiscally impact BAP. This proposal creates a tax credit of 10% of the contribution amount to an employee stock ownership program, up to $500,000 per tax year per contributor. The tax credit program has a cap of $10 million per tax year, and therefore could lower General Revenues by up to that amount annually. This proposal will impact the calculation under Article X, Section 18(e).

Officials at the **Department of Revenue** (**DOR**) assume this proposal would require computer programming changes to various tax systems. The IT portion is estimated to be $22,932 for 840 FTE hours. Additionally, the Corporate Tax Division would require one Revenue Processing Technician I per 6,000 tax credits redeemed and one Revenue Processing Technician I for every 520 compliance mailings and correspondence.

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

**Oversight** assumes DOR's Corporate Tax Division could absorb the responsibilities of this tax credit with existing resources. Should DOR experience the number of additional tax credit redemptions to justify another FTE, they could seek that FTE through the appropriation process.

Officials at the **Department of Economic Development** assume an unknown impact up to $10 million annually.

Officials at the **Joint Committee on Administrative Rules** assume there is no fiscal impact from this proposal.

Officials from the **Office of the Secretary of State (SOS)** state 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 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, the SOS also recognizes that many such bills may be passed by the

ASSUMPTION (continued)

General Assembly in a given year and that collectively the costs may be in excess of what the office can sustain with the core budget. Therefore, the SOS reserves 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.

**Oversight** assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process.

**Oversight** assumes this proposal creates a new tax credit for taxpayers who contribute to an employee stock ownership program. Oversight will reflect the loss of revenue to the state as $0 (no one claims the tax credit) to the annual cap.

| FISCAL IMPACT - State Government | FY 2015 (10 Mo.) | FY 2016 | FY 2017 |
|---|---|---|---|
| **GENERAL REVENUE** | | | |
| Revenue Reduction - creation of a tax credit for employee stock ownership program | $0 to ($10,000,000) | $0 to ($10,000,000) | $0 to ($10,000,000) |
| **ESTIMATED NET EFFECT ON GENERAL REVENUE** | **$0 to ($10,000,000)** | **$0 to ($10,000,000)** | **$0 to ($10,000,000)** |

| FISCAL IMPACT - Local Government | FY 2015 (10 Mo.) | FY 2016 | FY 2017 |
|---|---|---|---|
| | **$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 bill authorizes employers a tax credit of 10% of the amount contributed to an employee stock ownership program. The credit is not refundable and cannot be sold or transferred. The credit can be carried forward up to three years. The credit is capped at $10 million annually and $500,000 per employer.

This bill will terminate six years from the effective date on September 1 of the calendar year immediately following the calendar year in which the program expires.

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
Joint Committee on Administrative Rules
Office of Administration
   Division of Budget and Planning
Office of the Secretary of State

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JH:LR:OD