

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1225-02
Bill No.: HB 365
Subject: Business and Commerce; Economic Development; Employees - Employers
Type: Original
Date: February 12, 2007

Bill Summary: This proposal establishes the Small Business and Entrepreneurial Growth Act to allow for the expansion of small businesses.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
General Revenue	(\$93,389 to Unknown)	(\$100,274 to Unknown)	(\$103,280 to Unknown)
Total Estimated Net Effect on General Revenue Fund	(\$93,389 to Unknown)	(\$100,274 to Unknown)	(\$103,280 to Unknown)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
General Revenue	2 FTE	2 FTE	2 FTE
Total Estimated Net Effect on FTE	2 FTE	2 FTE	2 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 2008	FY 2009	FY 2010
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration - Budget and Planning (BAP)** state the proposal allows companies to retain employee withholding taxes for one or two years, provided the company meets certain eligibility requirements. This proposal could lower general and total state revenues by an unknown amount. BAP defers to the Department of Economic Development for an estimate of the impact.

Officials from the **Department of Revenue (DOR)** state their Taxation Division anticipates the administration of this bill to be much the same as the Quality Jobs Act. A new form would be created, a new system for tracking purposes would be needed, and 1 Tax Processing Technician I would be required to administer this new "Act", so as not to impose on the production of the existing withholding tax requirements.

DOR assumes costs to the general revenue fund of approximately \$40,000 per year to administer this program.

Officials from the **Department of Economic Development (DED)** state they would perform the administrative work to insure new jobs were created and insurance provided. This oversight would be similar to Quality Jobs. DED would require an Economic Development Incentive Specialist II and associated costs. If the program grew larger than expected, any additional funding or resources needed would be requested through the normal state budget process. The Division of Workforce Development within DED assumes the New Jobs Training Credit program could be negatively impacted since the withholding from these small businesses that would normally have gone to fund this training would be diverted to/kept by the employer.

DED assumes the cost of this additional FTE would total roughly \$80,000 per year.

Oversight has, for fiscal note purposes only, changed the starting salaries for DOR's Tax Processing Tech I and DED's Economic Development Incentive Specialist II 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 removed the office space expense from the estimate of expenses from the Department of Revenue and the Department of Economic Development. Oversight assumes neither agency will incur lease expense for their additional FTE.

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 Secretary of State's office 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 Secretary of State's office for Administrative Rules is less than \$2,500. The Secretary of State's office 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.

This proposal does not contain an annual limit to the amount of withholding taxes that may be retained by employers, therefore, **Oversight** will assume a potential unknown loss of revenue to the General Revenue Fund yearly. Oversight will range this loss from \$0 (no companies utilize the program) to an unknown loss of revenue.

Oversight assumes the state would realize some benefit from the proposal; however, Oversight assumes this benefit would be indirect and therefore, has not reflected it on the fiscal note.

This proposal would decrease Total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2008 (10 Mo.)	FY 2009	FY 2010
GENERAL REVENUE FUND			
<u>Costs - Department of Revenue</u>			
Personal Service	(\$18,066)	(\$22,330)	(\$23,000)
Fringe Benefits	(\$8,177)	(\$10,107)	(\$10,410)
Expense and Equipment	<u>(\$5,887)</u>	<u>(\$518)</u>	<u>(\$533)</u>
<u>Total Costs - DOR</u>	(\$32,130)	(\$32,955)	(\$33,943)
FTE Change - DOR	1 FTE	1 FTE	1 FTE

<u>FISCAL IMPACT - State Government</u> (continued)	FY 2008 (10 Mo.)	FY 2009	FY 2010
<u>Costs - DED</u>			
Personal Service	(\$29,623)	(\$36,614)	(\$37,712)
Fringe Benefits	(\$13,407)	(\$16,571)	(\$17,068)
Expense and Equipment	<u>(\$18,229)</u>	<u>(\$14,134)</u>	<u>(\$14,557)</u>
<u>Total Costs - DED</u>	(\$61,259)	(\$67,319)	(\$69,337)
FTE Change - DED	1 FTE	1 FTE	1 FTE
<u>Loss - Department of Revenue</u>			
Withholding tax revenue retained by companies	\$0 to <u>(Unknown)</u>	\$0 to <u>(Unknown)</u>	\$0 to <u>(Unknown)</u>
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	<u>(\$93,389 TO UNKNOWN)</u>	<u>(\$100,274 TO UNKNOWN)</u>	<u>(\$103,280 TO UNKNOWN)</u>
Estimated Net FTE Change for General Revenue Fund	2 FTE	2 FTE	2 FTE
<u>FISCAL IMPACT - Local Government</u>	FY 2008 (10 Mo.)	FY 2009	FY 2010
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

Small business that qualify for the program could be fiscally impacted from this proposal.

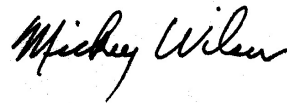
FISCAL DESCRIPTION

This proposal establishes the Small Business and Entrepreneurial Growth Act for small business employers who expand their business by increasing the number of jobs and meeting certain qualifications. Beginning January 1, 2008, a qualified employer can retain the Missouri withholding tax from the salaries of the newly created jobs for one year; or if the employer pays more than 50% of the cost of the premiums for health insurance for all employees, the withholding tax can be retained for two years.

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
Office of Administration - Budget and Planning
Office of the Secretary of State



Mickey Wilson, CPA
Director
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