

HCS HB 365, 804 & 805 -- SMALL BUSINESS EXPANSION AND RETENTION

SPONSOR: Ervin

COMMITTEE ACTION: Voted "do pass" by the Special Committee on Small Business by a vote of 8 to 1.

This substitute 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.

The substitute changes the laws regarding the small business investment tax credit. In its main provisions, the substitute:

- (1) Reduces the amount of the tax credit for a qualified investment in a small business from 40% to 30% of the investment, unless the small business is located in a distressed community, in which case the tax credit is reduced from 60% to 40%. A tax credit equal to 40% of an investment made in a small business located in a rural area is allowed. Tax credits will only be issued on investments up to \$100,000;
- (2) Removes the 50% tax credit for investment in a community bank or community development corporation;
- (3) Requires that \$10 million in tax credits be available each fiscal year for qualified investments in small businesses, regardless of the location of the business. Currently, the total amount of tax credits available for qualified investments in Missouri small businesses cannot exceed \$13 million with \$4 million reserved for distressed communities;
- (4) Removes the requirement that \$500,000 be available for tax credits for qualified investments in Missouri small businesses, community banks, or community development corporations from the Neighborhood Assistance Program; and
- (5) Prohibits the Department of Economic Development from issuing certificates without the approval of the Small Business Tax Credit Review Committee, which must review and determine the eligibility of all tax credit applications.

The Missouri Technology Corporation is authorized to issue up to \$10 million in tax credits each fiscal year.

A taxpayer can receive a 30% tax credit for a contribution toward the first \$500,000 in venture capital contributed to a qualifying company or a 40% tax credit if the company is located in a rural area or distressed community.

The corporation can reserve tax credits for taxpayers who contribute the initial \$5 million in venture capital to the company. The tax credit is equal to 30% of the amount invested or 40% if the company is located in a rural area or distressed community.

The reserved tax credits will only be issued to investors who have a net loss of investment within five years of contributing the first \$5 million in venture capital to an approved company.

A taxpayer can receive a 50% tax credit for contributions to a technology commercialization infrastructure project or for expenditures for industrial research conducted at a public research institution or private not-for-profit research institution for a collaborative research project approved by the corporation.

The credits can be used to offset current income taxes, carried over for three consecutive years, or transferred.

A qualifying company that relocates its headquarters out of Missouri, ceases to employ 80% of its employees in Missouri, alters the principal nature of its operations, or divests itself of key assets is required to repay the state for the tax credits issued to its contributors.

FISCAL NOTE: Estimated Cost on General Revenue Fund of \$125,518 to Unknown in FY 2008, \$133,228 to Unknown in FY 2009, and \$137,224 to Unknown in FY 2010. No impact on Other State Funds in FY 2008, FY 2009, and FY 2010.

PROPOSERS: Supporters of House Bill 365 say that the bill is a smaller version of the Quality Jobs Act which was passed a few years ago. The bill provides two levels of reward: (1) if a small business increases their payroll by 20% or more, the business can keep the withholding tax from the new employees for one year; and (2) if the business also provides at least 50% of the healthcare coverage for their employees, the business can keep the withholding tax from the new employees for two years. If a small business expands to more than five employees, the business can keep the withholding tax from the new employees for one year since workers' compensation is required when a company has at least five employees. The bill will help small business in small rural communities and foster the growth of small businesses throughout Missouri.

Supporters of House Bill 804 say that the bill provides an investment credit to strengthen and nurture small business in Missouri. The bill encourages investment in small businesses by providing a 30% credit to an investor who invests up to \$100,000 and a 40% credit if the investment is in a distressed area. The credit is capped at \$10 million. Ninety-eight percent of Missouri's businesses are small businesses, and the bill will help with financing for these small businesses.

Supporters of House Bill 805 say that the bill provides up to \$10 million in tax credits for venture capital for high technology small businesses in Missouri to stimulate new jobs and businesses in the technology area and retain the businesses already in the state. The bill has a five-year clawback provision for any business that no longer meets the requirements.

Testifying for HB 365 were Representative Ervin; Missouri Economic Development Council; National Federation of Independent Business; Missouri Chamber of Commerce and Industry; and Johnson County Economic Development Corporation. Testifying for HB 804 were Representative Grisamore; Department of Economic Development; Missouri Economic Development Council; National Federation of Independent Business; Missouri Chamber of Commerce and Industry; and Johnson County Economic Development Corporation. Testifying for HB 805 were Representative Grisamore; Missouri Economic Development Council; National Federation of Independent Business; Missouri Chamber of Commerce and Industry; University of Central Missouri; Johnson County Economic Development Corporation; Jim Farrell; Robert Monsees; and Jeff Craver.

OPPONENTS: There was no opposition voiced to the committee.