

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4644-03
Bill No.: HB 1900
Subject: Business and Commerce, Taxation and Revenue - General
Type: Original
Date: February 24, 2010

Bill Summary: Would amend 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

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
General Revenue	(More than \$233,472)	(More than \$305,230)	(More than \$311,387)
Total Estimated Net Effect on General Revenue Fund	(More than \$233,472)	(More than \$305,230)	(More than \$311,387)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
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 2011	FY 2012	FY 2013
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
General Revenue	5	5	5
Total Estimated Net Effect on FTE	5	5	5

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 2011	FY 2012	FY 2013
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Missouri Senate** assume that this proposal would either have no fiscal impact to their organization, or minimal costs which could be absorbed with existing resources.

Officials from the **Office of the Governor** assume 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 **Join Committee on Administrative Rules** assume that any fiscal impact from this proposal could be absorbed with existing resources.

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 DOHSS.

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.

ASSUMPTION (continued)

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, 2010 and ending December 31, 2013, 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;
- * \$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;
- * \$30,000 for each new, full-time job created with an annual salary at least equal to the average annual county wage if the business is less than five years old, offers health insurance, and pays fifty percent (50%) of the premiums

DOR would create rules to implement the provisions and would create procedural requirements 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

Personal Tax would require two Temporary Tax Employees for key entry, one FTE Revenue Processing Technician I (Range 10, Step L) per 19,000 returns manually reviewed, and one FTE Revenue Processing Technician I (Range 10, Step L) per 2,400 pieces of correspondence received.

ASSUMPTION (continued)

Collections and Tax Assistance would anticipate additional contacts regarding this deduction, and would require one FTE Tax Collection Technician I (Range 10, Step L) for every additional 24,000 contacts annually to the non-delinquent tax line, and one FTE Revenue Processing Technician I (Range 10, Step L) for every additional 4,800 contacts annually to the field offices.

Corporate Tax would require one FTE Revenue Processing Technician I (Range 10, Step L) for every 2,600 additional pieces of correspondence processed (50 per week).

DOR included an estimate of the administrative cost to implement the proposal including five additional employees and two additional temporary tax employees, with benefits and related equipment and expense costs totaling \$211,644 for FY 2011, \$226,957 for FY 2012, and \$233,767 for FY 2013.

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 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 estimate of equipment and expenditure costs in accordance with OA budget guidelines. Finally, Oversight assumes that a limited number of additional employees can be accommodated in existing office space.

Oversight assumes this proposal would have an impact for DOR beginning with the processing of 2010 tax returns in January, 2011, and has included salary costs for six months of FY 2011.

Oversight assumes the DOR estimate of equipment cost for additional employees could be overstated. If DOR is able to use existing cubicles, desks, file cabinets, chairs, etc., the estimated cost of equipment for fiscal year 2012 could be reduced by an additional \$5,000 per employee.

DOR officials also provided an estimate of the IT impact of the proposal of \$13,356, based on 504 hours of programming time 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 normal 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)

Officials from the **Office of Administration, Division of Budget and Planning** (BAP) assume there would be no added cost to their organization as a result of this proposal.

The proposal would extend the provisions of the BGGOMBA for an additional year. While this would not reduce general and total state revenues, it could slow growth in user fees, and 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 any small business, defined as having less than 25 employees, for any full-time jobs these businesses may create. The deduction would range from \$10,000 to \$30,000, depending on the wage level of the job and the inclusion of employer-funded health insurance. At a 6% marginal rate, this would lead to a tax reduction of \$600 - \$1800 per new qualifying job.

BAP cannot estimate how many new jobs may be created by small businesses. However, according to the United States Census Bureau County Business patterns, at least 132,000 firms meet this definition, employing an estimated 680,000 people.

This proposal will reduce general and total state revenues. While the new jobs may encourage economic growth, BAP cannot estimate the induced revenues.

Oversight notes that only 167 additional employees at the lowest proposed tax deduction amount would create a General Revenue Fund reduction of \$100,000. For fiscal note purposes, Oversight will indicate a fiscal impact in excess of \$100,000 for the General Revenue Fund for this proposal.

Officials from the **Missouri Highway Patrol**, the **State Tax Commission**, the **Department of Transportation**, and the **Office of State Public Defender** assume this proposal would have no fiscal impact on their organizations.

ASSUMPTION (continued)

Officials from the **Office of State Courts Administrator, the House of Representatives, the Missouri Ethics Commission, the Missouri Comprehensive Health Care Plan, the Department of Transportation and Highway Patrol Employees' Retirement System, the Joint Committee on Public Employee retirement, the Office of the State Auditor, the Office of the State Treasurer, the Office of Administration, Administrative Hearing Commission, the Department of Agriculture, the Department of Conservation, the Department of Higher Education, the Department of Mental Health, the Department of Public Safety, Capitol Police, Division of Fire Safety, Division of Alcohol and Tobacco Control, Missouri Gaming Commission, Missouri Veterans Commission, and State Emergency Management Agency** assume this proposal would have no fiscal impact on their organizations.

<u>FISCAL IMPACT - State Government</u>	FY 2011 (6 Mo.)	FY 2012	FY 2013
GENERAL REVENUE FUND			
<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)	(\$116,802)	(\$120,306)
Temporary employees	(\$13,000)	(\$16,068)	(\$16,550)
Benefits	(\$36,551)	(\$69,677)	(\$71,767)
Equipment and expense	<u>(\$27,221)</u>	<u>(\$2,683)</u>	<u>(\$2,764)</u>
Total	<u>(\$133,472)</u>	<u>(\$205,230)</u>	<u>(\$211,387)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(More than \$233,472)</u>	<u>(More than \$305,230)</u>	<u>(More than \$311,387)</u>
Estimated Net FTE Effect on General Revenue Fund	5	5	5

<u>FISCAL IMPACT - Local Government</u>	FY 2011 (10 Mo.)	FY 2012	FY 2013
	<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 create a new income tax deduction for certain small businesses that create new full-time jobs.

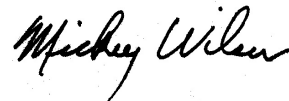
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of State Courts Administrator
Missouri Senate
House of Representatives
Office of the Governor
Missouri Ethics Commission
Missouri Comprehensive Health Care Plan
Department of Transportation and Highway Patrol Employees' Retirement System
Joint Committee on Administrative Rules
Joint Committee on Public Employee retirement
Office of the State Auditor
Office of the Secretary of State
Office of the State Treasurer
Office of the Attorney General
Office of Administration
Administrative Hearing Commission

SOURCES (continued)

Department of Agriculture
Department of Conservation
Department of Higher Education
Department of Health and Senior Services
Department of Mental Health
Department of Public Safety
 Capitol Police
 Division of Fire Safety
 Division of Alcohol and Tobacco Control
 Missouri Gaming Commission
 Missouri Highway Patrol
 Missouri Veterans Commission
 State Emergency Management Agency
Department of Revenue
State Tax Commission
Department of Transportation
State Public Defender



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