

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1520-03
Bill No.: HB 726
Subject: Business and Commerce; Revenue Dept.; Tax Credits; Taxation and Revenue -
Income
Type: Original
Date: March 29, 2011

Bill Summary: Would authorize an income tax credit for certain small businesses who hire a person who is disabled or recently discharged from a correctional facility.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
General Revenue	\$0	(\$94,836) to (\$10,094,836)	(\$145,225) to (\$10,145,225)
Total Estimated Net Effect on General Revenue Fund	\$0	(\$94,836) to (\$10,094,836)	(\$145,225) to (\$10,145,225)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 8 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
General Revenue	0	4	4
Total Estimated Net Effect on FTE	0	4	4

- 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 2012	FY 2013	FY 2014
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

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 **Office of Administration, Division of Budget and Planning (BAP)** assume the proposed legislation would not result in additional costs or savings to their organization.

BAP officials stated that this proposal would create a tax credit program for small businesses that employ disabled person or persons recently discharged from a correctional facility. The total amount of tax credits available under this program is \$10 million annually. Therefore this proposal could lower General and Total State Revenues by that amount.

Officials from the **Department of Corrections**, the **Department of Economic Development**, and the **Department of Mental Health** assume this proposal would have no fiscal impact on their organizations.

Officials from the **Department of Revenue (DOR)** assume this proposal would provide a tax credit program for small businesses that employ disabled persons or persons recently discharged from a state or federal correctional facility. The tax credit program would reduce Total State Revenue by \$500 for each such person employed with a maximum annual reduction of \$10 million.

ASSUMPTION (continued)

Beginning January 1, 2012, a taxpayer would be allowed a tax credit for hiring a disabled person or a person recently discharged from a state or federal correctional facility. The tax credit would be \$500 for each such person employed, except that a disabled person must work at least 25 hours per week for at least one year before the small business would be eligible for the tax credit; a person recently discharged from a correctional facility must work at least 40 hours per week for at least one year, before the small business would be eligible for the tax credit.

Upon meeting the eligibility requirements, the small business could claim the tax credit for the next three years. The tax credit redeemed could not exceed the taxpayer's state tax liability for the tax year for which the credit is claimed. Any excess tax credit would not be refundable but could be carried forward three years. The tax credits could not be transferred, sold, or assigned, and the aggregate amount of tax credits could not exceed \$10 million. Tax credits would be redeemed on a first-come, first-served filing basis.

DOR could create rules to implement the provisions of this section, and would need to make form changes. DOR and ITSD-DOR would need to make programming changes to various tax systems.

Administrative impact

DOR officials assume that Personal Tax would require one additional FTE Revenue Processing Technician I (Range 10, Step L) per 4,000 credits. In addition, DOR officials assume that there would be additional contacts to Collections and Tax Assistance (CATA) and CATA would require one additional FTE Tax Collection Technician I (Range 10, Step L) per 15,000 additional contacts annually on the delinquent tax line, and that a CARES phone and agent license would be required for these employees. CATA would also require one additional FTE Tax Collection Technician I (Range 10, Step L) per 24,000 additional contacts annually to the non-delinquent tax line; a CARES phone and agent license would be required for these employees. Finally, CATA would require one additional FTE Revenue Processing Technician I (Range 10, Step L) per 4,800 additional contacts annually to the field offices; a CARES phone and agent license would be required for these employees. DOR officials assume that Corporate Tax would require one additional FTE Revenue Processing Technician I (Range 10, Step L) per 6,000 additional tax credit redemptions; a CARES phone and agent license would be required for these employees.

ASSUMPTION (continued)

The administrative impact estimate submitted by DOR officials included five additional employees and the related benefits, equipment, and expense; the total was \$206,152 for FY 2012, \$202,488 for FY 2013, and T204,621 for FY 2014.

Oversight notes that the DOR estimate for a similar proposal in a previous session (HB 1015, LR 2343-01, 2009) included four additional employees, and Oversight will use that estimate. 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 adjusted the DOR estimate of equipment and expense cost in accordance with OA budget guidelines; and finally, Oversight assumes a limited number of additional employees could be accommodated in existing office space.

Oversight notes that this program would become effective for tax years beginning January 1, 2012; tax returns for that first tax year would be filed beginning in January 1, 2013 (FY 2013). Accordingly, Oversight will include DOR costs for six months of FY 2013 and for the full year of FY 2014.

Oversight also assumes the DOR estimate of expense and equipment cost for additional FTE could be overstated. If DOR is able to use existing equipment such as desks, file cabinets, chairs, etc., the estimate for equipment for fiscal year 2012 could be reduced by roughly \$5,000 per employee.

IT impact

DOR officials also provided an estimate of the IT cost to implement this proposal of \$26,712 based on 1008 hours of programming to modify DOR systems.

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

ASSUMPTION (continued)

Officials from the **University of Missouri, Economic and Policy Analysis Research Center** (EPARC) assume this proposal would, if enacted, authorize a \$500 income tax credit for small businesses with fifty employees or less for hiring a disabled person or a person recently discharged from a correctional facility. The aggregate amount of credits which may be redeemed would be capped at \$10 million.

Recent Missouri Individual Income Tax data (2009) indicates there were 46,351 disabled persons working in the state of Missouri. As of December 2009 the Missouri Department of Corrections data indicated there were 18,561 parolees statewide. Since the aggregate amount of credits is limited to \$10 million and each credit redeemed would be worth \$500, the maximum number of credits redeemed is limited to the hiring of 20,000 such employees. It seems plausible that the credit cap of \$10 million could be reached. Therefore, if this bill was enacted, the maximum impact would be a reduction of \$10 million in Net General Revenue.

Oversight will indicate a range of \$0 (no qualifying employees hired) to \$10 million (program cap is reached) for this program in FY 2013 and FY 2014.

This proposal could reduce Total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2012 (10 Mo.)	FY 2013	FY 2014
GENERAL REVENUE FUND			
Cost - Department of Revenue			
Salaries (4.0 FTE)	\$0	(\$45,813)	(\$92,543)
Benefits	\$0	(\$23,979)	(\$48,437)
Equipment and expense	<u>\$0</u>	<u>(\$25,044)</u>	<u>(\$4,245)</u>
Total	<u>\$0</u>	<u>(\$94,836)</u>	<u>(\$145,225)</u>
<u>Cost - tax credits</u>	<u>\$0</u>	<u>\$0 to</u> <u>(\$10,000,000)</u>	<u>\$0 to</u> <u>(\$10,000,000)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>\$0</u>	<u>(\$94,836) to</u> <u>(\$10,094,836)</u>	<u>(\$145,225) to</u> <u>(\$10,145,225)</u>
Estimated Net FTE Effect on General Revenue Fund	0	4	4

<u>FISCAL IMPACT - Local Government</u>	FY 2012 (10 Mo.)	FY 2013	FY 2014
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

This proposal would have a direct fiscal impact to small businesses which meet program requirements.

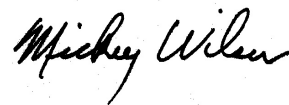
FISCAL DESCRIPTION

The proposed legislation would authorize an income tax credit for certain small businesses who hire a person who is disabled or recently discharged from a correctional facility.

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
Office of Administration
 Division of Budget and Planning
Department of Corrections
Department of Economic Development
Department of Mental Health
Department of Revenue
University of Missouri
 Economic and Policy Analysis Research Center



Mickey Wilson, CPA

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