

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5892-01
Bill No.: HB 1808
Subject: Taxation and Revenue - Income; Business and Commerce; Revenue Department
Type: Original
Date: March 3, 2014

Bill Summary: This proposal would create an income tax deduction for expenses incurred in creating or forming a limited liability company or sole proprietorship.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
General Revenue	\$0	(Unknown)	(Unknown)
Total Estimated Net Effect on General Revenue Fund	\$0	(Unknown)	(Unknown)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
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 2015	FY 2016	FY 2017
Total Estimated Net Effect on <u>All</u> 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

Section 143.132, RSMo. - Income tax deduction for business formation

This proposal would allow an individual, for all tax years beginning on or after January 1, 2015, to deduct expenses incurred in creating or forming a limited liability company or sole proprietorship. The deduction amount would be limited to five thousand dollars.

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 **Joint Committee on Administrative Rules** assume that this proposal would not have a fiscal impact to their organization in excess of existing resources.

Officials from the **Office of Administration - Division of Budget and Planning** and the **Department of Revenue** did not respond to our request for information.

Oversight assumes any fiscal impact to the Department of Revenue would be minimal and could be absorbed with existing resources. If unanticipated costs are incurred or if multiple proposals are implemented which increase the DOR workload, resources could be requested through the budget process.

Officials from the **Department of Economic Development** assume this proposal would have no impact to their organization, and deferred to the Department of Revenue for an estimate of fiscal impact.

ASSUMPTION (continued)

Oversight has no information regarding the number or cost of new limited liability companies or sole proprietorships which are created historically, or might be created in the years beginning on or after January 1, 2015. As a result, Oversight will indicate an unknown revenue reduction for the General Revenue Fund for the potential additional income tax deductions this proposal would allow.

Oversight notes this proposal would allow income tax deductions for years beginning on or after January 1, 2015, and assumes the impact of this proposal would begin in January 2016 (FY 2016) when the tax returns for 2015 are filed. Oversight is aware that some taxpayers may reduce their estimated payments or withholding in anticipation of a refund, but for fiscal note purposes will include the fiscal impact in the year the tax returns would be filed.

<u>FISCAL IMPACT - State Government</u>	FY 2015 (10 Mo.)	FY 2016	FY 2017
GENERAL REVENUE FUND			
<u>Revenue reduction - DOR</u>			
Additional tax deduction for business formation			
Section 143.132	<u>\$0</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>\$0</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
<u>FISCAL IMPACT - Local Government</u>	FY 2015 (10 Mo.)	FY 2016	FY 2017
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

Small businesses that create or form a limited liability company or a sole proprietorship after January 1, 2015 could be positively impacted as a result of this proposal.

FISCAL DESCRIPTION

This proposal would create an income tax deduction for expenses incurred in creating or forming a limited liability company or sole proprietorship.

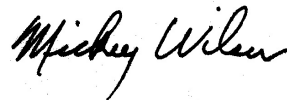
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of the Secretary of State
Joint Committee on Administrative Rules
Department of Economic Development

Not responding:

Office of Administration
Division of Budget and Planning
Department of Revenue



Mickey Wilson, CPA
Director
March 3, 2014

Ross Strope
Assistant Director

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