COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0190-01
Bill No.: HB 146
Subject: Economic Development; Tax Incentives; Taxation and Revenue - Income; Department of Revenue
Type: Original
Date: January 4, 2017

Bill Summary: This proposal establishes the Manufacturing Infrastructure Investment Act, which allows certain businesses to retain withholding taxes.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
General Revenue	(Could exceed $15,067,403)	(Could exceed $15,072,681)	(Could exceed $15,073,367)
Total Estimated Net Effect on General Revenue	**(Could exceed $15,067,403)**	**(Could exceed $15,072,681)**	**(Could exceed $15,073,367)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
Total Estimated Net Effect on Other 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 2018	FY 2019	FY 2020
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
General Revenue	1 FTE	1 FTE	1 FTE
Total Estimated Net Effect on FTE	**1 FTE**	**1 FTE**	**1 FTE**

☒ Estimated Net Effect (expenditures or reduced revenues) expected to exceed $100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Office of Administration's Division of Budget and Planning** (**B&P**) assume this proposal will allow qualified manufacturing companies and suppliers to retain 50% to 100% of their withholding taxes for a period of three to ten years if they are able to manufacture new products, modify or expand the manufacture of current products, or create new jobs.

The retention of the withholding taxes is capped at $10,000,000 per qualified company, and $15,000,000 total per calendar year, beginning January 1, 2018. Therefore, General and Total State Revenues may be reduced annually by this amount as early as FY 2019, with a reduction of approximately half this amount in FY 2018.

However, if companies are already receiving certain tax credits provided by the state, including the Missouri Works Job Training Program, the Real Property Increment Allocation Redevelopment Act, and the Missouri Downtown and Rural Economic Stimulus Act, they may not simultaneously receive the benefits awarded in this proposal. This could decrease the pool of qualified companies.

This proposal allows qualified companies to retain their withholding taxes and could reduce General and Total State Revenues by up to $15,000,000 annually and could impact the calculation under Article X, Section 18(e). This program may encourage other economic activity, but B&P does not have data to estimate the induced revenues. The Department of Economic Development may have such an estimate.

Oversight assumes the creation of this new program outlined in this proposal may have a positive impact on the state. However, Oversight considers this to be an indirect impact of the proposal and will not reflect it in this fiscal note.

Officials at the **Department of Economic Development** (**DED**) assume this proposal creates the Manufacturing Infrastructure Investment Act. This would be a new program administered by DED. It exempts 100% withholding tax from full-time jobs for up to 10 years for a qualified manufacturing company that makes a new product. It exempts 50% of withholding tax for a company that modifies or expands the manufacture of an existing product. The creation of this program will require the hiring of one FTE Economic Development Incentive Specialist III ($53,136) to administer the program.

ASSUMPTION (continued)

DED notes this proposal states the aggregate amount of withholding tax that may be retained by all qualified manufacturing companies (including suppliers) under this section shall not exceed $15,000,000 per calendar year.

Oversight has, for fiscal note purposes only, changed the starting salary for the Economic Development Incentive Specialist III ($44,352) 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 and policy of the Oversight Subcommittee of the Joint Committee on Legislative Research.

Officials at the **Department of Revenue** and **Joint Committee on Administrative Rules** each assume there is no fiscal impact from this proposal to their respective organization.

Officials from the **Office of the Secretary of State (SOS)** state 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 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, the SOS also recognizes 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 the office can sustain with the core budget. Therefore, the SOS reserves 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.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process.

Oversight notes the aggregate amount of withholding tax that may be retained by all qualified manufacturing companies shall not exceed $15 million. Qualified suppliers are allowed to retain withholding tax from new jobs for up to five years. This proposal defines "qualified manufacturing company" and "qualified supplier" and clearly states how each type of company is to specifically retain withholdings. Since they are defined separately, there does not appear to be a cap on the amount of withholding taxes that qualified suppliers can retain. Oversight will show the qualified supplier withholding as Unknown.

FISCAL IMPACT - State Government	FY 2018 (10 Mo.)	FY 2019	FY 2020
GENERAL REVENUE			
Cost - Manufacturing Infrastructure Investment Act- withholding tax cap on qualified manufacturing companies	($15,000,000)	($15,000,000)	($15,000,000)
Cost - Manufacturing Infrastructure Investment Act- withholding tax cap on qualified suppliers	(Unknown)	(Unknown)	(Unknown)
Cost - DED			
Personal Service	($36,960)	($44,796)	($45,243)
Fringe Benefits	($19,597)	($23,648)	($23,781)
Equipment and Expenses	($10,846)	($4,237)	($4,343)
Total Cost - DED	($67,403)	($72,681)	($73,367)
FTE Change - DED	1 FTE	1 FTE	1 FTE
ESTIMATED NET EFFECT ON GENERAL REVENUE	**(Could exceed $15,067,403)**	**(Could exceed $15,072,681)**	**(Could exceed $15,073,367)**
Estimated Net FTE Change on General Revenue	1 FTE	1 FTE	1 FTE

FISCAL IMPACT - Local Government	FY 2018 (10 Mo.)	FY 2019	FY 2020
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

This act establishes the Manufacturing Infrastructure Investment Act which allows qualified suppliers or manufacturing companies that create or retain Missouri jobs to retain employee withholding taxes for a period of years, as described in the act. The total amount of withholding taxes retained by any one qualified manufacturing company under the program is limited to no more than ten million dollars annually. The aggregate amount of retained withholding taxes authorized under the program for qualified manufacturing companies cannot exceed fifteen million dollars per year.

For a manufacturer of a new product to qualify for an incentive, it must make a capital investment of at least $75,000 per full-time employee retained at the facility within two years from the date such manufacturing company begins to retain withholding taxes. Where a manufacturing company modifies or expands the manufacture of an existing product, such company must commit to make a capital investment of at least $50,000 per retained job within two years from the date such manufacturing company begins to retain withholding taxes.

For a supplier to be eligible for incentives under the act, it must derive more than 10% of its total annual revenues from sales to a qualified manufacturing company, add five or more new jobs, pay wages for new jobs that are equal to or exceed the lower of the county average wage or the industry average wage for Missouri but are not less than sixty percent of the statewide average wage, and provide health insurance to employees and pay at least 50% of the insurance premiums.

The Department of Economic Development must respond to a qualified manufacturing facility or qualified supplier who provides a notice of intent to receive benefits under the program with either an approval or rejection within 30 days of receiving such notice. Failure of the department to respond will result in the notice of intent being deemed an approval.

Upon approval of a notice of intent by the department and the execution of an agreement with the department which memorializes the contents of the notice of intent including recapture and repayment provisions, a qualified manufacturing company which manufactures a new product may retain 100% of the withholding taxes from retained jobs for 10 years and a qualified manufacturing company which modifies or expands the manufacture of an existing product may retain 50% of the withholding taxes from retained jobs for 7 years. Qualified manufacturing companies will remain eligible to participate in the Missouri Works Program for any new jobs for which it does not retain withholding taxes under this act. Qualified manufacturing companies are prohibited from simultaneously receiving benefits under the Business Use Incentives for Large Scale Development Program, the New or Expanded Business Facilities Program, the Relocation of a Business to a Distressed Community Program, the Rural Empowerment Zones

FISCAL DESCRIPTION (continued)

Program, or the Enhanced Enterprise Zone Program. If a qualified manufacturing company is utilizing withholding taxes from the new jobs for any other state program, the taxes will first be credited to the other state program before they will begin to accrue to this program. If the qualified manufacturing company is participating in the new jobs training program, it cannot retain any withholding taxes that are already allocated for use in that program.

Upon approval of a notice of intent by the department, a qualified supplier may retain 100% of the withholding taxes from new jobs for three years, if the supplier pays wages for such new jobs that are equal to or greater than the lesser of the county average wage or the industry average wage for Missouri provided such wage is not lower than sixty percent of the statewide average wage. If a qualified supplier pays wages for the new jobs that are equal to or greater than 120% of the county average wage, it can retain 100% of the withholding taxes for new jobs withholding taxes for five years.

Taxpayers awarded benefits under the act that knowingly hire individuals who are not allowed to work legally in the United States will immediately forfeit benefits received and repay the state an amount equal to any withholding taxes already retained. A qualified manufacturing company that fails make the requisite amount of capital investment within the two year time period will be required to repay all benefits previously obtained from the state with five percent interest per year from the date the benefit was originally received. In the event a qualified manufacturing company's failure to meet capital investment requirements is due to economic conditions beyond the control of such company, the director the Department of Economic Development may, upon request of such company, provide a one-time suspension of benefits. If a qualified company discontinues the manufacture of the new product and does not replace it with a subsequent or additional new product, such company must cease retention of withholding taxes and will forfeit all rights to retain withholding taxes for the remainder of the withholding period.

The Department must submit an annual report on the program to the General Assembly by March first of each year. The report must provide participating facilities and suppliers, the amount of benefits provided, the net state fiscal impact, and the number of new and retained jobs.

This act shall sunset after six years unless re-authorized by the General Assembly.

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
Joint Committee on Administrative Rules
Office of Administration
  Division of Budget and Planning
Office of the Secretary of State

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