COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.:	0955-02
Bill No.:	HCS for HB 255
Subject:	Tax Incentives; Economic Development; Taxation and Revenue - Income; Taxation and Revenue - Sales and Use
Type:	Original
Date:	February 5, 2019

Bill Summary: This proposal modifies the Missouri Works Program.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
General Revenue	$0 to ($24,940,000)	$0 to ($24,940,000)	$0 to ($24,940,000)
Total Estimated Net Effect on General Revenue	**$0 to ($24,940,000)**	**$0 to ($24,940,000)**	**$0 to ($24,940,000)**

Note: The fiscal note does not reflect the possibility that some of the tax credits could be utilized by insurance companies against insurance premium taxes. If this occurs, the loss in tax revenue would be split between the General Revenue Fund and the County Foreign Insurance Fund, which ultimately goes to local school districts.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
Total Estimated Net Effect on FTE	**0**	**0**	**0**

☒ 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 2020	FY 2021	FY 2022
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Office of the **Office of Administration Division of Budget and Planning** (**B&P**) assume to the extent businesses qualify for additional tax credits this proposal could impact General and Total State Revenues and the calculation pursuant to Article X, Section 18(e). Additionally, to the extent this proposal encourages other economic activity, General and Total State Revenue may increase, but B&P cannot estimate the induced revenues. B&P notes the proposal requires a net positive benefit to the state.

Officials at the **Department of Economic Development** and its Divisions anticipate no fiscal impact as a result of this proposal.

Office of the **Department of Revenue** assume there is no fiscal impact from this proposal.

Officials at the **Department of Insurance, Financial Institutions and Professional Registration** assume a potential unknown decrease in premium tax revenues as a result of the expansion of the Missouri Works tax credit. Premium tax revenue is split 50/50 between General Revenue and County Foreign Insurance Fund except for domestic Stock Property and Casualty Companies who pay premium tax to the County Stock Fund. The County Foreign Insurance Fund is later distributed to school districts throughout the state. County Stock Funds are later distributed to the school district and county treasurer of the county in which the principal office of the insurer is located. It is unknown how each of these funds may be impacted by tax credits each year.

Oversight notes the MO Works Program was created in 2013 in HB 184. It replaced the Development tax credit in §32.100, the Rebuilding Communities tax credit in §135.535, the Enhanced Enterprise Zones tax credit in §135.950 and the Quality Jobs tax credit in §620.1875. MO Works was given a $106 million cap in FY 2014, a $111 million cap in FY 2015 and a $116 million cap in FY 2016 and all subsequent years. This $116 million cap includes outstanding authorizations under the previous tax credits.

To qualify for a tax credit under MO Works a company must create or retain a minimum number of jobs at the project facility with average wages of 80%, 90%, 120% or 140% of the county average wage and pay at least 50% of health insurance premiums. These projects are considered Zone Works, Rural Works, Statewide Works, and Mega Works (120 & 140).

ASSUMPTION (continued)

In addition to the tax credits, a company is allowed to retain withholding tax based on the creation of new jobs and retained jobs. There is no annual cap on the amount of withholding tax that can be retained.

Oversight notes according to the Tax Credit Analysis submitted by the Department of Economic Development regarding this program, the Missouri Works - Business Incentives tax credit program had the following activity;

	FY 2016	FY 2017	FY 2018	FY 2019 (projected)	FY 2020 (projected)
Certificates Issued	4	17	31	92	103
Projects	136	144	141	140	142
Amount Authorized	$114,719,436	$155,506,188	$185,732,973	$172,254,336	$183,158,205
Amount Issued	$23,741,677	$35,547,214	$45,830,250	$95,576,322	$110,506,953
Amount Redeemed	$12,075,789	$35,065,683	$56,398,909	$93,664,796	$108,296,814

Amount Outstanding - $1,559,276.84 Est. amount Authorized but Unissued - $632,066,458.08

Oversight notes that §620.2010.6 would allow a qualified company to receive tax credits equal to 9% of new payroll. This proposal caps the amount that shall be issued under §620.2010.6 to up to 21.5% of the $116 million ($24,940,000). This proposal would expand the companies that would be eligible for this tax credit and increase the utilization of the program, Oversight will show the impact as $0 (no additional companies authorized) to $24,940,000 as only $45.8 million in credits were actually issued in FY 2018.

Oversight assumes the many changes to the existing programs in this proposal could have a positive economic impact on the state. However, Oversight considers this to be an indirect impact of the proposals and will not reflect them in the fiscal note.

Oversight currently does not have the data or resources available to produce independent revenue projections, therefore Oversight uses the same assumptions for revenue growth as the FY 2020 Consensus Revenue Estimate (CRE) for revenue growth in all future years. The CRE assumes an increase in net general revenue collections of $192.6 million for FY 2020.

Oversight notes pursuant to §143.011 - §143.022 (SBs 509 & 496 2014) if the previous fiscal year's net general revenue collections exceed the highest net general revenue collections of the three previous fiscal years by at least $150 million, then there will be a reduction in the

ASSUMPTION (continued)

individual income tax rate by one-tenth of a percent and a reduction for individual income tax filers of 5% of "business income." These reductions will reduce net General Revenue collections by an estimated $160.0 million annually. Oversight notes the proposed legislation may impact future net revenue collections and could impact future triggering of the rate reductions required under §143.011 - §143.022.

FISCAL IMPACT - State Government	FY 2020 (10 Mo.)	FY 2021	FY 2022
GENERAL REVENUE			
Revenue Reduction - DED §620.2010.6 expansion of qualified companies	$0 to ($24,940,000)	$0 to ($24,940,000)	$0 to ($24,940,000)
ESTIMATED NET EFFECT ON GENERAL REVENUE	**$0 to ($24,940,000)**	**$0 to ($24,940,000)**	**$0 to ($24,940,000)**

Note: The fiscal note does not reflect the possibility that some of the tax credits could be utilized by insurance companies against insurance premium taxes. If this occurs, the loss in tax revenue would be split between the General Revenue Fund and the County Foreign Insurance Fund, which ultimately goes to local school districts.

FISCAL IMPACT - Local Government	FY 2020 (10 Mo.)	FY 2021	FY 2022
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

Small businesses the qualify for the tax credit could be positively impacted.

FISCAL DESCRIPTION

Currently, the Missouri Works Program allows qualified companies to retain a portion of withholding tax in exchange for the consideration provided by the new tax revenues and other economic stimuli that is generated by new jobs. The Missouri Works Program also authorizes issuance of additional tax credits to qualified companies in certain situations.

This bill modifies the Missouri Works Program to allow a qualified company a tax credit of up to 9% of new payroll issued within one year following the qualified company's acceptance of the Department of Economic Development's proposal for benefits, if the qualified company creates 10 or more jobs at an average wage of 90% or more of the county average wage, in lieu of other benefits under the program.

This bill also adds a financial guarantee provision to a written agreement between the qualified company and the department for the issuance of these tax credits (§620.2010).

This bill specifies the department may issue the tax credit following the qualified company's acceptance of the department's proposal and issued pursuant to the requirements set forth in the written agreement between the department and the qualified company . The department shall reserve up to 21.5% of the maximum annual amount of other tax credits allowed under the Missouri Works Program (§620.2020).

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 Insurance, Financial Institutions and Professional Registration
Department of Revenue
Office of Administration Division of Budget and Planning

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JH:LR:OD

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