

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2104-01
Bill No.: HB 854
Subject: Economic Development; Employees - Employers.
Type: Original
Date: April 5, 2005

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
General Revenue	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
Total Estimated Net Effect on General Revenue Fund*	\$0 to (UNKNOWN)	\$0 to (UNKNOWN)	\$0 to (UNKNOWN)

* Could exceed \$100,000

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
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 2006	FY 2007	FY 2008
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Secretary of State (SOS)** assume there would be costs due to additional publishing duties related to the Department of Economic Development's authority to promulgate rules, regulations, and forms. SOS estimates the division could require approximately 4 new pages of regulations in the Code of State Regulations at a cost of \$27.00 per page, and 6 new pages in the Missouri Register at a cost of \$23.00 per page. Costs due to this proposal are estimated to be \$246, however, the actual fiscal impact would be dependent upon the actual rule-making authority and may be more or less. Financial impact in subsequent fiscal years would depend entirely on the number, length, and frequency of the rules filed, amended, rescinded, or withdrawn. SOS does not anticipate the need for additional staff as a result of this proposal, however, the enactment of more than one similar proposal may, in the aggregate, necessitate additional staff.

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. Any decisions to raise fees to defray costs would likely be made in subsequent fiscal years.

ASSUMPTION (continued)

Officials from the **Department of Revenue (DOR)** state the proposal would have the following administrative impact on their agency;

Section 620.1404.1(23f) - A qualified company shall not include any company that is delinquent in the payment of any non-protested taxes or any other amounts due to the state, feds, or local political subdivisions. It is the assumption that Tax Clearances will have to be done on businesses - this should be minimal impact on DOR.

Section 620.1407.3(1) - Small and expanding business projects get to keep the full amount of withholding tax that would have been remitted. Since the amount of withholding is based on how the employee completes the MO W-4 (or doesn't complete it at all) there is a large potential for fraud here. Business Tax suggests changing the amount that can be retained to a percentage of payroll instead as is done for technology business projects and high impact projects.

This could have very little impact on DOR or a large impact on DOR depending on how this is reported. If the companies only report to DOR the actual amount of tax being remitted then no system changes will be needed. If the companies will be reporting to DOR the amount they retained and the amount being remitted then substantial changes will need to be made to the withholding system or a separate tracking system will need to be programmed. Business Tax assumes that the Department of Economic Development will be tracking the amount of tax retained so this should have little impact.

The only other impact this will have is on possible future discovery programs where W-2 information is matched to the amount remitted by the employer. Since the employees are getting credit for the amount being retained by the companies, the W-2's won't match the withholding data.

DOR's Division of Taxation will have internal costs associated with the implementation of this legislation; however, the division believes it can manage these costs at current appropriation levels unless there is a material change in the division's other responsibilities.

Officials from the **Department of Economic Development (DED)** state the proposal reduces the MODESA cap from \$150 million to \$145 million and reduces the Rebuilding Communities program by \$7 million, which are used to fund the Missouri Quality Jobs Act. These changes would seem to be revenue neutral.

DED assumes a revenue neutral fiscal impact and no administrative impact from this proposal.

ASSUMPTION (continued)

Officials from the **Office of Administration - Budget and Planning** did not respond to our request for fiscal impact.

Oversight assumes the reduction in the annual limit of disbursements from the State Supplemental Downtown Development fund from \$150 million to \$145 million (Section 620.1407.5) will not have an immediate fiscal impact on the state since no activity has passed through this fund yet.

Oversight also assumes the reduction to the annual limitation of the Rebuilding Communities tax credit program from \$10 million per year to \$3 million per year (Section 620.1407.5) would also not have a significant fiscal impact to the state, since the issuances for the last four fiscal years have been \$2,172,260 (FY 2002), \$3,322,480 (FY 2003), \$1,220,667 (FY 2004) and \$2,465,594 (projected for FY 2005 and FY 2006). Therefore, the new cap of \$3 million is still higher than the historical issuances by DED.

Oversight assumes the proposal would have some undeterminable positive economic benefit to the state of Missouri, but those are not reflected in the fiscal note.

<u>FISCAL IMPACT - State Government</u>	FY 2006	FY 2007	FY 2008
	(10 Mo.)		
GENERAL REVENUE FUND			
<u>Loss</u> - Tax credits in the Missouri Quality Jobs Act	\$0 to (\$12,000,000)	\$0 to (\$12,000,000)	\$0 to (\$12,000,000)
<u>Loss</u> - Withholding payments retained by employers for new jobs created under the Missouri Quality Jobs Act	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND*	<u>\$0 to</u> <u>(Unknown)</u>	<u>\$0 to</u> <u>(Unknown)</u>	<u>\$0 to</u> <u>(Unknown)</u>

* Could exceed \$100,000

<u>FISCAL IMPACT - Local Government</u>	FY 2006 (10 Mo.)	FY 2007	FY 2008
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

Small businesses that qualify for the various tax credit programs created or changed by this proposal could be impacted by this proposal.

DESCRIPTION

The proposal establishes the Missouri quality jobs program. The program allows qualified companies to retain a portion of the withholding tax or wages paid to employees in newly created jobs. To qualify for the program, employers must offer basic health insurance and pay at least 50% of the premiums. The three types of qualifying programs are as follows:

- **SMALL AND EXPANDING BUSINESS PROGRAM:** These programs must create more than 20 new jobs if in a rural area and 40 new jobs if in a non-rural area in two years. The program is unavailable if creating 100 jobs or more. The employers must pay at least the county average wage.
- **TECHNOLOGY BUSINESS PROGRAM:** These programs must create ten new jobs directly involved in the operations of a technology company as defined by the Department of Economic Development and appropriate NAICS (North American Industry Classification System) in two years.
- **HIGH IMPACT PROJECTS PROGRAM:** These programs must provide a minimum of 100 new jobs within two years.

For each of these programs, the employers may retain withholding tax for a set number of years based on what they are paying relative to the county average wage. The technology business program and high impact projects program may be eligible for tax credits. High impact projects may receive additional benefits if the local government provides benefits equal to their new local tax revenue.

The proposal establishes the "Quality Jobs Advisory Task Force" which consists of the chairpersons of the economic development of the Missouri senate and the Missouri house or his or her designee, the director of the department of economic development or his or her designee,

DESCRIPTION (continued)

and two members appointed by the governor. If the department of economic development wants to increase the maximum amount of tax credit given to a qualified high impact project company, they may increase the amount up to one million dollars if the increase is proposed by the department and approved by the task force.

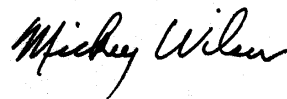
The act caps the tax credits issued for the program at twelve million dollars and the maximum amount authorized for business relocation in a distressed community is reduced from ten million dollars to three million dollars. The Missouri Downtown and Rural Economic Stimulus Act cap is reduced to one hundred forty five million dollars. There shall be no limit on the amount of withholding taxes that may be retained by approved companies under the new program.

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
Office of the Secretary of State

NOT RESPONDING: Office of Administration - Budget and Planning



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