

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5134-01
Bill No.: HB 1870
Subject: Disabilities; Revenue Department; Taxation and Revenue
Type: Original
Date: March 14, 2006

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
General Revenue	(More than \$169,790)	(More than \$170,771)	(More than \$172,434)
Total Estimated Net Effect on General Revenue Fund*	(More than \$169,790)	(More than \$170,771)	(More than \$172,434)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Insurance Dedicated	(\$2,164)	\$0	\$0
Total Estimated Net Effect on <u>Other</u> State Funds*	(\$2,164)	\$0	\$0

*** The fiscal impact could be divided between the General Revenue Fund and the County Foreign Insurance Fund (which ultimately goes to local school districts) if some of the tax credits are utilized against insurance premium taxes.**

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Local Government*	\$0	\$0	\$0

* The fiscal impact could be divided between the General Revenue Fund and the County Foreign Insurance Fund (which ultimately goes to local school districts) if some of the tax credits are utilized against insurance premium taxes.

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Health and Senior Services** as well as the **Department of Labor and Industrial Relations** each assume the proposal would not fiscally impact their respective agencies.

Officials from the **Office of 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 \$1,500. 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.

ASSUMPTION (continued)

Officials from the **Office of Administration - Budget and Planning (BAP)** state this legislation authorizes tax credits to employers who hire disabled workers. This legislation will have a negative impact on general revenue. There is no annual program cap. We defer to the Department of Economic Development and Department of Labor and Industrial Relations for information on the potential universe of qualifying employers.

Officials from the **Department of Insurance (INS)** state it is unknown how many insurance companies will choose to participate in this program and take advantage of the tax credits. As there is not a maximum credit amount set to be claimed or issued per year, INS can not estimate how much would be lost in premium tax revenue as a result of tax credits. 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 the 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 tax credits each year.

INS will require \$2,164 for contract computer programming to add this new tax credit to the premium tax database.

Officials from the **Department of Revenue (DOR)** state this legislation creates a tax credit for employers who hire disabled employees.

DOR states this legislation would have their agency certify and verify the credits claimed. This will require additional FTE as follows:

- Personal Tax would require 1 Tax Processing Technician I for every 4,000 credits claimed; and
- The Corporate Tax Section will require 1 Tax Processing Technician I to administer the credit.

DOR assumes a total cost of roughly \$75,000 annually to administer the credit.

Oversight assumes the DOR will not incur additional floor space expense for the two additional FTE and have taken that expense out of DOR's estimate. This tax credit can be utilized against several tax types, so funds other than General Revenue (i.e. County Foreign Insurance) could be impacted by the program.

ASSUMPTION (continued)

The tax credit is for all years beginning on or after January 1, 2006, therefore, **Oversight** assumes a potential impact to revenue in FY 2007. According to the U.S. Census Bureau's Statistical Abstract of the United States, 2006, there were 23,081,000 civilians ages 16 to 74 who have a condition which prevents them from working or limits the amount of work they can do. Assuming that Missouri represent 2 percent of the population, this would equate to 461,620 Missourians who meet this definition. Also according to the Statistical Abstract, 11.6 percent of those persons are employed full time, which would equate to 53,547 Missourians with the above characteristics that work full time. If a \$3,000 credit were issued on behalf of all of these workers, this would equate to over \$160.6 million in tax credits annually. This does not count those people who do not work full time and would still be eligible for the other tax credits.

Oversight is not sure if the definition of 'Disabled Employee' utilized in the bill would be comparable to the definition of 'Persons with a Work Disability' utilized by the U.S. Census Bureau, therefore, Oversight will assume the loss in revenue from the tax credits will be an unknown amount, over \$100,000.

This proposal will reduce Total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2007 (10 Mo.)	FY 2008	FY 2009
GENERAL REVENUE			
<u>Cost - Dept. of Revenue</u>			
Personal Service (2 FTE)	(\$39,278)	(\$48,312)	(\$49,520)
Fringe Benefits	(\$17,306)	(\$21,286)	(\$21,819)
Expense and Equipment	<u>(\$13,206)</u>	<u>(\$1,063)</u>	<u>(\$1,095)</u>
<u>Total Costs to DOS</u>	(\$69,790)	(\$70,661)	(\$72,434)
<u>Loss - Tax credits for hiring disabled workers</u>	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>
ESTIMATED NET EFFECT ON THE GENERAL REVENUE FUND *	<u>(More than \$169,790)</u>	<u>(More than \$170,661)</u>	<u>(More than \$172,434)</u>

Note: This 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 - State Government
(continued)

FY 2007
(10 Mo.)

FY 2008

FY 2009

INSURANCE DEDICATED FUND

Cost - Dept. of Insurance

Reprogramming costs

(\$2,164)

\$0

\$0

**ESTIMATED NET EFFECT ON
INSURANCE DEDICATED FUND**

(\$2,164)

\$0

\$0

FISCAL IMPACT - Local Government

FY 2007
(10 Mo.)

FY 2008

FY 2009

\$0

\$0

\$0

FISCAL IMPACT - Small Business

This legislation creates a tax credit for employers who hire disabled workers. If a small business were to hire a disabled person for 10, 20, or 40 hours per week, they could qualify for the tax credit.

DESCRIPTION

This proposal authorizes a tax credit for hiring a disabled employee against a company's corporate income tax; corporate franchise tax; financial institutions tax; or bridge, express, and public utility company tax. Individuals are excluded from this tax credit. The amount of the credit is based on the disabled employee's average hours worked per week in a taxable year. If the average is at least 10 hours, the credit will be \$1,000 per disabled employee; \$1,500 if the average is at least 20 hours; and \$3,000 if the average is at least 40 hours. The credit is not refundable, cannot be carried over, or transferred.

The provisions of the bill will expire six years from the effective date.

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 Revenue
Office of Administration - Budget and Planning
Department of Insurance
Department of Health and Senior Services
Department of Labor and Industrial Relations
Office of the Secretary of State

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, flowing style.

Mickey Wilson, CPA
Director
March 14, 2006