

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 1853-01  
Bill No.: HB 758  
Subject: Education, Elementary and Secondary: Employees - Employers; Revenue  
Department; Taxation and Revenue - Income  
Type: Original  
Date: March 27, 2007

---

Bill Summary: Provides an income tax credit for employers who hire qualified high school students for summer jobs.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
<b>FUND AFFECTED</b>	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2010</b>
General Revenue	(\$159,502)	(\$102,818 to \$3,102,818)	(\$105,902 to \$3,105,902)
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>(\$159,502)</b>	<b>(\$102,818 to \$3,102,818)</b>	<b>(\$105,902 to \$3,105,902)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2010</b>
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

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

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
General Revenue	1 FTE	2 FTE	2 FTE
<b>Total Estimated Net Effect on FTE</b>	<b>1 FTE</b>	<b>2 FTE</b>	<b>2 FTE</b>

☐ 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).

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

## FISCAL ANALYSIS

### ASSUMPTION

Officials from the **Department of Labor and Industrial Relations** state this proposal will have no fiscal impact on their agency.

Officials from the **Office of 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 to the SOS office for Administrative Rules is less than \$2,500. The SOS recognizes this is a small amount and does not expect additional funding would be required to meet these costs. However, SOS also recognizes that many such bills may be passed in a given year and that collectively the costs may be in excess of what the SOS can sustain with their core budget. Any additional required funding would be handled through the budget process.

According to officials from the **Office of Administration - Division of Budget and Planning**, the cumulative amount of tax credits claimed in any one fiscal year shall not exceed \$3 million. Therefore, general and total state revenues may be reduced by this amount annually.

According to officials from the **Department of Insurance, Finance, and Professional Regulation (DIFP)**, tax credits taken by Insurance companies decrease the amount of premium tax received by the state. Premium tax is split between General Revenue and the County School Funds.

It is unknown how many insurance companies will choose to participate in this program and take advantage of the tax credits. DIFP estimates that from \$0 to \$3 million per year could 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 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 this tax credit each year.

DIFP will require minimal contract computer programming to add this new tax credit to the premium tax database and can do so under existing appropriation; However, should multiple bills pass that would require additional updates to the premium tax database, DIFP may need to request more expense and equipment appropriation through the budget process.

ASSUMPTION (continued)

Officials from the **Department of Revenue** assume Personal Tax would require 1 Tax Processing Technician I for every 6,000 credits claimed.

**Oversight** has, for fiscal note purposes only, adjusted the starting salary for the additional position 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 for a six month period and the policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. Oversight has also adjusted equipment and expense amounts in accordance with OA budget guidelines. **Oversight** assumes that one additional employee could be accommodated in existing office space. If unanticipated additional costs are incurred or if multiple proposals are enacted which increase the DOR workload, resources could be requested through the budget process.

**Office of Administration Information Technology (ITSD DOR)** estimates the IT portion of this request can be accomplished within existing resources, however; if priorities shift, additional FTE/overtime would be needed to implement. Office of Administration Information Technology (ITSD DOR) estimates that this legislation could be implemented utilizing 4 existing CIT III for 2 months and an additional 2 CIT III for 1 month at a rate of \$41,860.

Officials from the **Department of Elementary and Secondary Education (DES)** assume the proposal requires DES to establish a procedure by which a taxpayer can determine if a student is a qualified high school student, and by which such taxpayer can then claim a tax credit.

DES does not currently collect individual student records and would have no knowledge of a student's GPA. DES would have to collect the GPA of every student, in addition to parental approval, and develop a system which has the ability to cross reference minimum attendance requirements, and free or reduced lunch eligibility. Adding an additional element to student data collection will cost approximately \$100,000. In addition DES would require 1.0 FTE director to implement this program and review claim forms annually.

DES states that local school districts will likely incur costs to collect and send data to the department on a continual basis.

**Oversight** has, for fiscal note purposes only, adjusted the salary and benefits of the director to correspond with the range for starting salaries posted by DES for similar positions and has excluded travel costs, assuming the program could be administered with minimal travel.

ASSUMPTION (continued)

**Oversight** will range the fiscal impact of the new tax credit program from \$0 (no taxpayers taking advantage of the tax credit) to the annual cap of \$3,000,000. This tax credit is for tax years beginning on or after January 1, 2008; therefore, there could be a reduction in revenue collections in FY 2009. **Oversight** has shown the full cost of the tax credits in the General Revenue Fund, although the tax credits could be used by insurance companies and result in fiscal impact to other state and local funds.

<u>FISCAL IMPACT - State Government</u>	FY 2008 (10 Mo.)	FY 2009	FY 2010
---	---------------------	---------	---------

**GENERAL REVENUE**

Cost - DOR

Personal Service (1.0 FTE)	\$0	(\$22,026)	(\$22,686)
Fringe Benefits	\$0	(\$9,704)	(\$9,996)
Expense and Equipment	<u>\$0</u>	<u>(\$518)</u>	<u>(\$534)</u>
<u>Total Costs - DOR</u>	\$0	(\$32,248)	(\$33,216)

Costs - DES

Personal Service (1 FTE)	(\$38,625)	(\$47,741)	(\$49,173)
Fringe Benefits	(\$17,482)	(\$21,608)	(\$22,256)
Expense and Equipment	(\$3,395)	(\$1,221)	(\$1,257)
Data system updates	<u>(\$100,000)</u>	<u>\$0</u>	<u>\$0</u>
<u>Total Costs - DESE</u>	(\$159,502)	(\$70,570)	(\$72,686)

Loss - Tax credits of 35% of amount paid to a qualified high school student in wages for summer employment

\$0	\$0 to <u>(\$3,000,000)</u>	\$0 to <u>(\$3,000,000)</u>
-----	--------------------------------	--------------------------------

**ESTIMATED NET EFFECT ON  
GENERAL REVENUE**

<u>(\$159,502)</u>	<u>(\$102,818 to \$3,102,818)</u>	<u>(\$105,902 to \$3,105,902)</u>
--------------------	---------------------------------------	---------------------------------------

Estimated Net FTE Change for General Revenue

1 FTE	2 FTE	2 FTE
-------	-------	-------

FISCAL IMPACT - Local Government

FY 2008  
(10 Mo.)

FY 2009

FY 2010

\$0

\$0

\$0

FISCAL IMPACT - Small Business

A small business that employs a qualified high school student for summer employment and pays them more than \$100 would be able to claim the tax credit created by this proposed legislation.

FISCAL DESCRIPTION

This proposal authorizes a tax credit for employers who hire qualified high school students for summer jobs. The tax credit is equal to 35% of the wages paid to the student employee, but can only be claimed if the employer pays the student at least \$100. An employer can claim up to \$50,000 per year. The program has a cumulative annual cap of \$3 million.

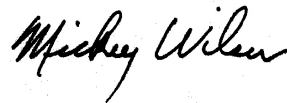
To qualify, a student must be currently enrolled as a junior or senior in high school, meet minimum attendance requirements, earn a grade point average of 2.0 or better, and be eligible for the free or reduced lunch program. Students who are home schooled and meet these requirements are also eligible. The Department of Elementary and Secondary Education must establish a procedure by which an employer can determine if he or she is eligible to receive the tax credit based on if the student employee qualifies. The department must also track students for whom employers receive this tax credit.

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  
    Division of Budget and Planning  
Department of Labor and Industrial Relations  
Department of Insurance, Finance, and Professional Regulation  
Office of Secretary of State  
    Administrative Rules Division

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

Mickey Wilson, CPA  
Director  
March 27, 2007