

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2243-02
Bill No.: HCS for HB 1000
Subject: Business and Commerce; Corporations; Revenue Dept.; Taxation and Revenue -
Income
Type: Original
Date: April 3, 2007

Bill Summary: Would provide an income tax exemption for new manufacturers in this state for the first five years of the manufacturer's existence.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
General Revenue *	\$0	(Unknown)	(Unknown)
Total Estimated Net Effect on General Revenue Fund *	\$0	(Unknown)	(Unknown)

* Unknown expected to exceed \$100,000.

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

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Total Estimated Net Effect on FTE	0.0	0.0	0.0

☐ 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).

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

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration, Division of Budget and Planning** (BAP) assume this proposal would exempt new manufacturers in the state from corporate income tax.

Budget and Planning has reviewed this Fiscal Note. BAP assumes there would be no added cost to their organization as a result of this proposal.

BAP notes that net corporate income tax totaled \$333.3 million in FY06. In calendar year 2006, according to the United States Bureau of Labor Statistics Current Employment Statistics Data, about 13% of total private-service employees in Missouri were in manufacturing. Using this figure as an estimate of manufacturing's share, BAP estimates corporate income taxes from manufacturing were \$43.3 million in FY06. BAP defers to the Department of Revenue or the Department of Economic Development for an estimate of the number of new manufacturers that may open in the state each year. This proposal would lower general and total state revenues by an unknown amount less than \$43.3 million.

Officials from the **Department of Revenue** (DOR) stated that the Division of Taxation was unable to determine if this would create an additional line on the corporate income tax return or additional forms to accompany the income tax return. DOR assumes the Corporate Income Tax Section would require 1 Tax Processing Technician I to maintain the accounts, exemptions, correspondence, and phone calls.

Information Technology ITSD/DOR assumes the IT portion of this request could be accomplished within existing resources, however; if priorities shift, additional FTE/overtime would be needed to implement. ITSD/DOR estimates that this legislation could be implemented utilizing 3 existing CIT III for 2 months at a cost of \$25,116.

DOR submitted an estimated cost to implement this proposal including 1.0 additional FTE and related benefits, equipment, and expenses totaling \$37,623 for FY 2008, \$39,742 for FY 2009, and \$40,935 for FY 2010.

Oversight assumes that a tax exemption would create minimal additional workload for the Department of Revenue which could be absorbed with existing resources. 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.

ASSUMPTION (continued)

In response to a similar proposal, officials from the **Office of the Secretary of State (SOS)** provided the following response:

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 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, we also recognize 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 our office can sustain with our core budget. Therefore, we reserve 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.

Officials from the **Department of Economic Development (DED)** assume that one Economic Development Specialist III would be required to administer this program. DED officials also stated that the proposal would result in an unknown negative impact to the General Revenue Fund.

DED submitted an estimated cost to implement this proposal including one additional FTE and the related equipment, expenses, and office space totaling \$78,058 for FY 2008, \$88,083 for FY 2009, and \$88,562 for FY 2010.

Oversight assumes that the additional DED workload would be minimal and could be absorbed with existing resources. If unanticipated additional costs are incurred or if multiple proposals are enacted which increase the DED workload, resources could be requested through the budget process.

Oversight assumes this proposal would result in a revenue reduction greater than \$100,000 per year to the General Revenue Fund for tax years beginning January 1, 2008 (FY 2009). Oversight notes that new enterprises typically experience losses during their first years of existence, and that there could be some offset to the revenue reduction from increased employment and general economic activity.

This proposal would reduce Total State Revenue.

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

Revenue reduction - DOR

Income tax exemption for new corporations. *	\$0	<u>(Unknown)</u>	<u>(Unknown)</u>
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ESTIMATED NET EFFECT ON GENERAL REVENUE FUND *	\$0	<u>(Unknown)</u>	<u>(Unknown)</u>
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* Unknown expected to exceed \$100,000.

<u>FISCAL IMPACT - Local Government</u>	FY 2008 (10 Mo.)	FY 2009	FY 2010
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

This proposal would have a direct fiscal impact to new incorporated small businesses involved in manufacturing.

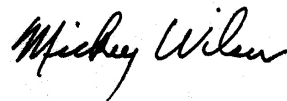
FISCAL DESCRIPTION

This proposal would provide an income tax exemption for new manufacturers in this state for the first five years of the manufacturer's existence. The Director of the Department of Economic Development would prescribe the method for making application for certification, and could issue rules to administer the 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

Office of the Secretary of State
Office of Administration
 Division of Budget and Planning
Department of Economic Development
Department of Revenue

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

Mickey Wilson, CPA
Director
April 3, 2007