COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2445-01
Bill No.: HB 1074
Subject: Revenue Dept.; Taxation and Revenue - Income
Type: Original
Date: April 6, 2009

Bill Summary: Would modify income tax provisions.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
General Revenue	($10,413,635) to (Unknown)	($21,869,905) to (Unknown)	($21,872,001) to (Unknown)
Total Estimated Net Effect on General Revenue Fund	**($10,413,635) to (Unknown)**	**($21,869,905) to (Unknown)**	**($21,872,001) to (Unknown)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
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 2010	FY 2011	FY 2012
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
General Revenue	1	1	1
Total Estimated Net Effect on FTE	**1**	**1**	**1**

☐ 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 2010	FY 2011	FY 2012
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of the Secretary of State** (SOS) stated that 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 $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 **Office of Administration**, **Division of Budget and Planning** (BAP) assume this proposal would not result in additional costs or savings to their organization.

Timely Filing Discount for Employers

BAP officials stated that these provisions would increase the discount for the timely filing of withholding taxes. Under current provisions, the discount is 1% on any amount above $5,000 and 0.5% on any amount above $10,000. According to the DOR, about $24 million was deducted in FY 2008 due to this discount. A total of $4,373.1 million was withheld in FY08, making the average discount 0.549%. Raising the ratio might make the average discount 1.049%. In this case $45.6 million would be deducted and general and total state revenues could be reduced $21.6 million.

Corporate Income Tax Exemption

BAP officials stated that there provisions would exempt from income taxation any corporation that "does not receive funds" from any program administered by the DED. BAP notes that no corporation receives "funds" directly from the DED; therefore, this proposal would eliminate the corporate income tax. This proposal would reduce general and total state revenues by $366 million annually.

ASSUMPTION (continued)

BAP assumes that the intent of the sponsor may be to exempt only those corporations that do not receive DED assistance in the form of tax credits. DED may have a list of corporations that would be ineligible in this case. That interpretation would reduce general and total state revenues by an unknown amount up to $366 million.

New Employee Payroll Tax Retention

These provisions would create the Small Business and Entrepreneurial Growth Act. Qualifying businesses may retain withholding taxes for one year, or two years if they provide more than fifty percent of health insurance premiums for all employees. These provisions could reduce general and total state revenues by an unknown amount, but the reductions may be offset by induced economic activity. BAP defers to DED for such an estimate.

Although officials from the **Department of Economic Development** (DED) did not respond to our request for information they stated in response to a similar proposal that the proposed legislation would create the Small Business and Entrepreneurial Growth Act. DED would need to establish the guidelines for the approval process and then notify the Department of Revenue of the approved business so they could handle the retention of the withholding tax under Section 3.

The creation of the Small Business and Entrepreneurial Growth Act would result in the need for one additional FTE to administer the program. This FTE would be an Economic Development Incentive Specialist III and would be responsible for reviewing the tax credit applications to make sure they meet the criteria of the program, drafting and sending the tax credit awards and ensuring compliance with the program. The related costs for this FTE include one-time expenditures for systems furniture, a side chair, file cabinet, calculator and telephone and recurring costs for office supplies, computer, professional development and travel.

DED estimated the cost of this additional FTE to be roughly $70,000 per year.

Officials from the **Department of Revenue (DOR)** assume the proposal would not fiscally impact their agency.

ASSUMPTION (continued)

DOR officials provided an estimate of the IT cost to implement the proposal.

Officials from the **Office of Administration**, **Information Technology Services Division** (ITSD/DOR) estimates the IT portion of this proposal could be implemented using three FTE existing CIT III for one month for modifications to the COINS, Café and E-file systems. The estimated cost total cost would be $13,323. ITSD/DOR assumes this proposal could be implemented with existing resources; however; if priorities shift, additional FTE or overtime would be needed.

Oversight assumes ITSD/DOR could implement this proposal with existing resources.

Officials from the **University of Missouri**, **Economic Policy Analysis and Research Center** (EPARC) provided an estimate of the cost to implement the employer retention percentage provisions in this proposal. The EPARC estimate was $21.7 million per year.

Oversight will use the EPARC estimate of additional withholding retentions, and will include a loss of state revenue for six months of 2010.

Oversight assumes the New Employee Payroll Tax Retention program would result in a reduction in withholding taxes to the Department of Revenue in excess of $100,000. Oversight assumes the amount of this loss would be 'unknown' since there is no annual limit on this program. Oversight also assumes this program would have an indirect positive impact on Missouri's economy; however, Oversight considers this to be an indirect effect of the proposal and has not reflected it in the fiscal note.

Oversight notes that corporate income tax revenue amounted to $529 million for FY 2006, $554 million for FY 2007, and $521 million for FY 2008. Oversight assumes the Corporate Income Tax Exemption program would have a negative impact on the General Revenue Fund in excess of $100,000 per year since a corporation which does not participate in DED sponsored programs could be exempted from state income taxes by completing a request form. This proposal would be effective for tax years beginning on or after January 1, 2010, and returns for those years would be filed beginning January 1, 2011.

This proposal may reduce Total State Revenues.

FISCAL IMPACT - State Government	FY 2010 (10 Mo.)	FY 2011	FY 2012
GENERAL REVENUE			
Costs - DED			
Personal Service (1 FTE)	($35,803)	($44,252)	($45,580)
Fringe Benefits	($17,411)	($21,520)	($22,166)
Expense and Equipment	($10,421)	($4,133)	($4,255)
Total Costs - DED	($63,635)	($69,905)	($72,001)
Revenue reduction - Increased employer prompt payment retention	($10,350,000)	($21,700,000)	($21,700,000)
Revenue reduction - corporate income tax exemption program	$0	(More than $100,000)	(More than $100,000)
Loss - Retention of withheld taxes from newly created jobs	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	**($10,413,635) to (Unknown)**	**($21,869,905) to (Unknown)**	**($21,872,001) to (Unknown)**
Estimated Net FTE Change for the General Revenue Fund	1 FTE	1 FTE	1 FTE

FISCAL IMPACT - Local Government	FY 2010 (10 Mo.)	FY 2011	FY 2012
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

This proposal would increase the prompt payment retention for employers who remit withholding taxes to the Department of Revneue, would provide an exemption from corporate income taxes for corporations which do not receive funding from programs administered by the Department of Economic Development, and would allow small businesses to retain withholding taxes for qualifying new employees.

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
University of Missouri
  Economic Policy Analysis and Research Center

Mickey Wilson

Mickey Wilson, CPA
Director
April 6, 2009