COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0835-01
Bill No.: HB 124
Subject: Economic Development; Appropriations; Economic Development Department
Type: Original
Date: February 4, 2013

Bill Summary: This proposal modifies provisions relating to the Manufacturing Jobs Act and requires the prioritization of the use of funds in the Missouri Job Development Fund to assist qualified suppliers.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
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)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Total Estimated Net Effect on Other 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 2014	FY 2015	FY 2016
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Total Estimated Net Effect on FTE	**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 2014	FY 2015	FY 2016
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Office of Administration - Budget and Planning** (**BAP**) assume this proposal modifies the qualified supplier provisions of the Manufacturing Jobs Act. The amount of benefits available for qualified suppliers is not limited. The legislation authorizes up to 6.5 percent of new payroll to be retained, depending upon the amount of the new wages. The amount of benefits awarded to a supplier could exceed the actual new tax revenue generated by new jobs created. If a qualified supplier is eligible for more benefit than can be retained through withholding taxes, the qualified supplier will be issued a refundable tax credit. This proposal could therefore lower General and Total State Revenues by an unknown amount. This program may encourage other economic activity, but BAP does not have data to estimate induced revenues.

Officials at the **Department of Economic Development** (**DED**) assume this proposal expands the Manufacturing Jobs Act under Section 620.1910 to allow qualified suppliers to receive incentives based on certain eligibility requirements. Although the cap remains unchanged, this revision will increase the number of applicants for the program and therefore increase the amount of incentives authorized. DED assumes projects will have positive economic benefit; therefore, DED assumes a positive impact over $100,000 as a result of the legislation.

DED is responsible for determining eligibility of qualified suppliers under the expanded portion of the program and anticipates the need for one additional FTE. This FTE would be an Economic Development Incentive Specialist III ($41,016) and would be responsible for reviewing applications to determine eligibility for the program and ensuring compliance with the program.

Oversight assumes DED could absorb the responsibilities of proposal with existing resources. Should the number of applications increase significantly then DED could request the FTE through the appropriation process.

Officials at the **Department of Revenue** (DOR) stated they would need to make programming changes to various tax systems and form changes. The estimated cost of these changes would be $27,266 for 1,008 FTE hours. Additionally, the Corporate Tax Division would need one Revenue Processing Technician I ($25,884) for every 6,000 additional tax credit redemptions.

Oversight assumes DOR is provided with core funding to handle a certain amount of computer programming activity each year. Oversight assumes DOR could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, ASSUMPTION (continued)

DOR could request funding through the appropriation process.

Oversight assumes DOR's Corporate Tax Division could absorb the responsibilities of this tax credit with existing resources. Should DOR experience the number of additional tax credit redemptions to justify another FTE they could seek that FTE through the appropriation process.

Oversight notes that there is no cap on the qualified suppliers portion of this program. As BAP noted, a supplier could qualify for a credit of 6.5% of payroll (instead of a credit equal to the amount of tax withheld, under current law). Since the maximum marginal individual income tax rate is 6%, a supplier could receive a credit worth more than the additional taxes paid by additional workers. The proposal also expands the suppliers that may qualify for the program. Therefore, Oversight will reflect losses to the General Revenue Fund of $0 (if no supplier receives credits based upon these changes) to a negative Unknown (depending upon the amount of additional withholding taxes that suppliers are able to retain as a result of the changes in the proposal).

Oversight assumes the changes to the existing program in this proposal would have a positive impact on the state. However, Oversight considers this to be indirect impact of the proposal and will not reflect it in the fiscal note.

FISCAL IMPACT - State Government	FY 2014 (10 Mo.)	FY 2015	FY 2016
GENERAL REVENUE			
Revenue Reduction - retained withholding tax from qualified suppliers	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
ESTIMATED NET EFFECT ON GENERAL REVENUE	**$0 to (Unknown)**	**$0 to (Unknown)**	**$0 to (Unknown)**

FISCAL IMPACT - Local Government	FY 2014 (10 Mo.)	FY 2015	FY 2016
	$0	**$0**	**$0**

JH:LR:OD

FISCAL IMPACT - Small Business

A small business that is a qualified supplier may benefit from receiving this credit.

FISCAL DESCRIPTION

This bill changes the laws regarding the Manufacturing Jobs Act and the use of funds in the Missouri Job Development Fund.

The bill requires the Department of Economic Development to make efforts to prioritize the use of funding under the Missouri Job Development Fund to assist qualified suppliers as defined in the bill.

A qualified supplier is allowed, with approval of a notice of intent by the department, to retain an amount equal to a maximum of 5.5% of new payroll for a period of five years from the date the required number of jobs were created in this state from the withholding tax of the new jobs that would otherwise be withheld and remitted by the qualified supplier if the average wage of the new jobs equals or exceeds the county average wage. An additional .5% of new payroll may be added to the 5.5% maximum if the average wage of the new jobs in any year exceeds 120% of the county average wage in the county in which the project facility is located, plus an additional .5% of new payroll may be added if the average wage of the new jobs in any year exceeds 140% of the average wage in the county in which the project facility is located. The department must issue a refundable tax credit for any difference between the amount of benefit allowed and the amount of withholding tax retained by the qualified supplier in the event the withholding tax is not sufficient to provide the entire amount of benefit due to the qualified supplier. Any tax credits issued under these provisions must be subject to specified provisions of the Missouri Quality Jobs Act in Section 620.1881, RSMo.

If a qualified supplier also participates in the New Jobs Training Program in Sections 178.892 to 178.896, the company must retain no withholding tax, but the department must issue a refundable tax credit for the full amount of benefit allowed under these provisions. The calendar year annual maximum amount of tax credits that may be issued to a qualified supplier that also participates in the New Jobs Training Program must be increased by an amount equivalent to the withholding tax retained by that company under the New Jobs Training Program. If combined benefits of this program and the New Jobs Training Program exceed the projected state benefit of the project as determined by the department through a cost-benefit analysis, the increase in the maximum tax credits must be limited to the amount that would not cause the combined benefits to exceed the projected state benefit.

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FISCAL DESCRIPTION (continued)

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
Office of Administration
  Budget and Planning
Department of Revenue

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