

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4205-01
Bill No.: HB 1089
Subject: Business and Commerce; Taxation and Revenue - General
Type: Original
Date: January 13, 2014

Bill Summary: This proposal would create the Bring Jobs Home Act which would authorize a deduction from taxes due for out of state businesses that relocate to Missouri.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
General Revenue	(\$194,100 to \$10,194,100)	(\$184,324 to \$10,184,324)	(\$186,238 to \$10,186,238)
Total Estimated Net Effect on General Revenue Fund	(\$194,100 to \$10,194,100)	(\$184,324 to \$10,184,324)	(\$186,238 to \$10,186,238)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 9 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
General Revenue	5 FTE	5 FTE	5 FTE
Total Estimated Net Effect on FTE	5 FTE	5 FTE	5 FTE

☐ 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 2015	FY 2016	FY 2017
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Section 620.2425, RSMo. - Bring Jobs Home Act:

Officials from the **Office of the 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 for this fiscal note to the Secretary of State's Office 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 **Joint Committee on Administrative Rules** assume that this proposal would not have a fiscal impact to their organization in excess of existing resources.

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** assume this proposal would not result in any additional costs or savings to their organization.

BAP officials noted this proposal would create the Bring Jobs Home Act, which would provide what is effectively a credit against individual or corporate income taxes, for eligible relocation expenses. The program is capped at \$10 million annually; therefore this proposal may reduce Total State Revenues by up to this amount.

Officials from the **Department of Economic Development - Division of Business and Community Services (BCS)** assume this proposal would create the Bring Jobs Home Act, which would allow businesses to receive a credit in the amount of 20% of eligible expenses incurred moving a qualified business to Missouri. The program would have an annual cap of \$10 million, and BCS would implement the program.

ASSUMPTION (continued)

BCS officials also assume the negative impact could be offset by any positive economic activity that would result from the proposed legislation.

Oversight assumes that potential economic growth resulting from new business activity in the state could offset part of all of the negative impact from the program; however, that potential growth is speculative and will not be included in this fiscal note.

DED officials assume three additional employees would be required to administer the program. The additional employees would be an Economic Development Incentive Specialist III, II, and I. Each would be responsible for establishing procedures, reviewing and approving applications for the program to determine eligibility, reviewing the tax credit applications to make sure they meet the criteria of the program, drafting and sending the tax credit award documents, and ensuring compliance with the program.

The DED response included three additional employees and the related equipment and expenses. The total cost estimate was \$162,948 for FY 2015, \$174,371 for FY 2016, and \$176,286 for FY 2017.

Oversight assumes the DED estimate of expense and equipment cost for the new FTE could be overstated. If DED is able to use existing desks, file cabinets, chairs, etc., the estimate for equipment could be reduced by roughly \$6,000 per new employee.

Oversight notes this proposal would create a deduction from taxes due for twenty percent of eligible expenses and there would be no need for application, award, and redemption procedures. Oversight assumes only one additional DED employee would be required for the eligibility and compliance procedures. If unanticipated costs are incurred or if multiple proposals are enacted which increase the DED workload, resources could be requested through the budget process.

Oversight has, for fiscal note purposes only, changed the starting salary for the additional employee 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 and the policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. Oversight has also adjusted the DED estimate of equipment and expense in accordance with OA budget guidelines. Finally, Oversight assumes a limited number of additional employees could be accommodated in existing office space.

ASSUMPTION (continued)

Officials from the **Department of Revenue (DOR)** assume this proposal would create the "Bring Jobs Home Act" which would allow a deduction from taxes imposed against chapter 143 equal to 20% of eligible expenses. The proposal would cap the deduction at \$10 million per year. Deductions would be based on the number of full-time equivalent employees for the tax year the deduction is claimed. If the taxpayer eliminates the business within 10 years of receiving the deduction, the taxpayer would be required to repay the amount of the deduction. The program would sunset six years after the effective date unless reauthorized by the General Assembly.

Fiscal impact

DOR officials noted if this proposal is intended to create a deduction, it would have a negative impact on Total State Revenue by as much as \$600,000 each year; however, if the proposal is meant to provide a credit against the taxpayer's tax liability, the negative impact to Total State Revenue could be as much as \$10 million each year.

DOR officials also noted there is no effective date in the legislation which could allow the deduction to be used retroactively.

Oversight notes this proposal would allow a deduction from taxes due, which appears to be the equivalent of a tax credit; therefore, the fiscal impact would range from \$0 (no claims made) to \$10 million per year (the program cap).

Oversight assumes the program would become effective as of August, 2014 and the \$10 million annual cap would apply beginning in FY 2015; the first tax returns for 2014 would be filed in January 2015 (FY 2015). Accordingly, Oversight will indicate a fiscal impact ranging from \$0 (no eligible claims) to \$10 million (program cap) for FY 2015, FY 2016, and FY 2017.

If the program resulted in claims for eligible business relocation costs from prior years and those costs were determined to be allowable in addition to the annual program cap, the cost of the program could exceed \$10 million per year.

ASSUMPTION (continued)

Administrative impact

DOR officials assume the Department would need to make forms changes, and the Department and ITSD-DOR would need to make programming changes to various tax systems.

DOR officials assume Personal Tax would require two (2) additional FTE Revenue Processing Technicians I for error correction and correspondence and Corporate Tax would require two (2) additional FTE Revenue Processing Technicians I for error correction and correspondence. Further, DOR officials assume CARES system equipment would be required for each technician.

Oversight has, for fiscal note purposes only, changed the starting salary for the additional DOR employees 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 and policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. Oversight has also adjusted the DOR estimate of equipment and expense in accordance with OA budget guidelines. Finally, Oversight assumes a limited number of additional employees could be accommodated in existing office space.

IT impact

DOR officials provided an estimate of the IT cost to implement this proposal of \$27,518 based on 1008 hours of programming to make changes to DOR systems.

Oversight assumes OA - ITSD (DOR) is provided with core funding to handle a certain amount of activity each year. Oversight assumes OA - ITSD (DOR) could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, OA - ITSD (DOR) could request funding through the appropriation process.

Officials from the **Department of Economic Development - Division of Workforce Development** assume this proposal would have no fiscal impact on their organization.

<u>FISCAL IMPACT - State Government</u>	FY 2015 (10 Mo.)	FY 2016	FY 2017
GENERAL REVENUE FUND			
<u>Cost - DED</u>			
Business relocation tax credits			
Section 620.2425			
Salaries	(\$21,990)	(\$26,388)	(\$26,652)
Benefits	(\$11,216)	(\$13,459)	(\$13,594)
Equipment and expense	<u>(\$7,249)</u>	<u>(\$600)</u>	<u>(\$615)</u>
Total	(\$40,455)	(\$40,447)	(\$40,861)
FTE change - DED	1 FTE	1 FTE	1 FTE
<u>Cost - DOR</u>			
Business relocation tax credits			
Section 620.2425			
Salaries	(\$77,120)	(\$92,544)	(\$93,469)
Benefits	(\$39,335)	(\$47,202)	(\$47,674)
Equipment and expense	<u>(\$37,190)</u>	<u>(\$4,131)</u>	<u>(\$4,234)</u>
Total	(\$153,645)	(\$143,877)	(\$145,377)
FTE change - DOR	4 FTE	4 FTE	4 FTE
<u>Revenue reduction - DOR</u>			
Relocation tax credits	\$0 to	\$0 to	\$0 to
Section 620.2425	<u>(\$10,000,000)</u>	<u>(\$10,000,000)</u>	<u>(\$10,000,000)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$194,100 to \$10,194,100)</u>	<u>(\$184,324 to \$10,184,324)</u>	<u>(\$186,238 to \$10,186,238)</u>
Estimated Net FTE Change for the General Revenue Fund	5 FTE	5 FTE	5 FTE
<u>FISCAL IMPACT - Local Government</u>	FY 2015 (10 Mo.)	FY 2016	FY 2017
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

This proposal would allow small businesses which qualify a deduction from income taxes due for 20 percent of eligible in-sourcing expenses.

FISCAL DESCRIPTION

This proposal would create the Bring Jobs Home Act and authorize a tax deduction against income tax other than withholding tax of up to 20% of eligible expenses associated with eliminating a business located outside of the state and reestablishing it in Missouri. The elimination could occur in a year other than the year the relocation occurs, and the expenses must be under a written insourcing plan.

To be eligible for the tax deduction, the number of full-time employees in Missouri for the year the deduction is claimed must exceed the number of full-time employees for the year preceding the year in which the eligible insourcing expenses were paid or incurred. Eligible expenses must be deducted for the tax year the plan was completed and all eligible expenses paid or incurred or, if the taxpayer chooses, the first tax year after expenses have been paid or incurred.

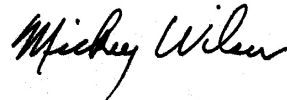
A deduction would not be allowed for any expenses incurred when dissolving a business in Missouri and relocating it to another state. The amount of tax credits issued under this program could not exceed \$10 million per year and would be issued on a first come first served basis. If a taxpayer is not issued a deduction for a given year because the cap has been reached, the taxpayer could claim the deduction in the following year. If a taxpayer is allowed a deduction under this program and, within 10 years of receiving the deduction eliminates the business unit for which the deduction was allowed, the taxpayer must repay the state.

The provisions of the bill would expire six years after 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

Office of The Secretary of State
Joint Committee on Administrative Rules
Office of Administration
 Division of Budget and Planning
Department of Economic Development
 Division of Business and Community Services
 Division of Workforce 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
January 13, 2014

Ross Strope
Assistant Director
January 13, 2014