

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4626-01
Bill No.: HB 1056
Subject: Business and Commerce; Economic Development; Department of Economic Development, Department of Revenue, Office of Administration
Type: Original
Date: January 15, 2014

Bill Summary: This proposal establishes the Missouri Business Recruiters Act to create employment positions for business recruiters to attract out-of-state business owners and companies to Missouri.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
General Revenue	\$0 to Unknown to (Unknown)	\$0 to Unknown	\$0 to Unknown
Total Estimated Net Effect on General Revenue Fund	\$0 to Unknown to (Unknown)	\$0 to Unknown	\$0 to Unknown

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

* Revenue and costs net to zero.

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 7 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
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 2015	FY 2016	FY 2017
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Office of Administration's Division of Budget and Planning (BAP)** assume there is no fiscal impact from this proposal to BAP. This proposal establishes the Missouri Business Recruiters Act, which requires the Department of Economic Development to administer a program to create employment positions for business recruiters. Recruiters are compensated for each qualifying job relocated to Missouri in the amount of two percent withholding taxes. This proposal will decrease General and Total State Revenues by an unknown amount. This proposal may also increase economic activity, but BAP does not have data to estimate induced revenues.

Officials at the **Office of Administration's Division of Personnel and Division of Accounting** each assume there is no fiscal impact to their respective Divisions from this proposal.

Officials at the **Department of Economic Development (DED)** assume \$620.1600 creates the Missouri Business Recruiters Act which allows a business recruiter who assists a company in re-locating to Missouri, 2% of the withholding tax that is collected from any job the recruiter is responsible for bringing to the state. The Business Recruiter is a full-time private position and serves to facilitate businesses relocating to Missouri. DED is responsible for taking applications for the program and establishing requirements for employment. While the position is not a state position it must be listed on the OA website. Additionally, the Department of Revenue is responsible for withholding the 2% tax and holding it in a fund for disbursement to eligible business recruiters.

DED assumes an unknown impact as a result of the program. DED would require one additional FTE to administer the program due to the anticipated amount of administration involved. The FTE would be an Economic Development Incentive Specialist III and be responsible for reviewing and approving the applications for the program to determine eligibility, establishing procedures, reviewing the applications to make sure they meet the criteria of the program, and ensuring compliance with the program.

Oversight assumes that this proposal requires DED to create an application process for potential business recruiters. Creation of the application should be able to be absorbed with existing resources.

Officials at the **Office of State Treasurer** assume there is no fiscal impact from this proposal.

ASSUMPTION (continued)

Officials at the **Department of Revenue (DOR)** assume that the Withholding Tax Division will need to make forms changes and modifications to the withholding tax system to track the withholding payments made by companies that have been relocated by the business and by employee hired under the program (not all employees or relocated jobs may be eligible for participation in the program), and the amount to be distributed to the Missouri Business Recruiters Fund. The Department will create a new reporting schedule to detail the amount subject to the 2% withholding and a monthly report to show the amount that needs to be transferred into the fund.

There will be a cost for a change order for the integrated system that is not covered under our current contract with Revenue Solutions, Inc. The estimated cost is \$350,000 to \$500,000. This cost is separate from any ITSD costs associated with the current withholding program. Based upon the assumption that the legislation's effective date is August 28, 2014 this necessitates the development in the current withholding system as well as needing to be addressed in the design elements of the new integrated tax system, which is scheduled for deployment the 1st quarter of 2016.

NOTE: In response to similar legislation last year, DOR's response did not indicate that the integrated computer system would need to be changed to implement this proposal. DOR has now indicated that the current integrated computer system contract would need to be changed at an estimated cost of \$350,000 to \$500,000. The estimated cost was determined by Revenue Solutions. The current contract with Revenue Solutions would need to be amended to allow for the changes of this proposal. The current contract allows the contractor to be paid a percentage of the deliverables rather than a lump sum payment. It is unclear how these changes to the integrated system would be paid (either percentage paid or lump sum paid).

Oversight will show the one time upgrade to the integrated computer system as \$0 (percentage paid) up to \$500,000 (the maximum amount estimated by the contractor for a lump sum payment).

Oversight assumes these new jobs would not have come to Missouri if not for these business recruiters. Oversight will reflect in the fiscal note increased revenue to General Revenue of the withholding tax from the new jobs created as \$0 (no new jobs with withholding tax) to Unknown. Oversight will reflect the transfer from General Revenue to the Missouri Business Recruiters Fund of the 2% of the withholding tax required by this proposal. Oversight assumes all money received by the Fund will be used per the requirements of the proposal.

ASSUMPTION (continued)

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

<u>FISCAL IMPACT - State Government</u>	FY 2015 (10 Mo.)	FY 2016	FY 2017
GENERAL REVENUE			
<u>Additional Revenue</u> - new jobs created and withholding tax collected	\$0 to Unknown	\$0 to Unknown	\$0 to Unknown
<u>Transfer Out</u> - 2% of withholding tax collected from new jobs to MO Business Recruiters Fund	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
<u>Cost</u> - Department of Revenue - change to computer system	\$0 or (Up to \$500,000)	<u>\$0</u>	<u>\$0</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>\$0 to Unknown to (Unknown)</u>	<u>\$0 to Unknown</u>	<u>\$0 to Unknown</u>
MISSOURI BUSINESS RECRUITERS FUND			
<u>Transfer In</u> - withholding tax for new jobs created under this proposal	\$0 to Unknown	\$0 to Unknown	\$0 to Unknown
<u>Cost</u> - payment of the business recruiter services	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
ESTIMATED NET EFFECT ON MISSOURI BUSINESS RECRUITERS FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Local Government

FY 2015
(10 Mo.)

FY 2016

FY 2017

\$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 bill establishes the Missouri Business Recruiters Act to create employment positions for business recruiters to attract out-of-state business owners and companies to Missouri. A business recruiter will receive compensation for any jobs that are relocated into Missouri equal to 2% of the withholding tax that is collected from the relocated jobs and is subject to specified restrictions. The relocated job must pay wages that meet or exceed the average pay in the county to which the job is relocated, be maintained for at least one year, and be a full-time position requiring at least 2,000 hours per year and 160 hours per month for at least 10 months per year.

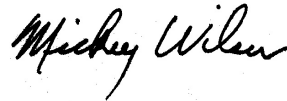
The Department of Economic Development must administer the program and create a business recruiter application process. Any private contracted business recruiter must apply to become a Missouri business recruiter under guidelines developed by the department. The Department of Revenue must withhold 2% of the withholding taxes for each new job created under the program and deposit the withheld funds into the newly created Missouri Business Recruiters Fund. The Office of Administration must advertise the position of business recruiter in the same manner as any other job opening or business procurement.

The provisions of the bill will expire four 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

Department of Economic Development
Department of Revenue
Office of Administration
 Division of Budget and Planning
 Division of Personnel
 Division of Accounting
Office of State Treasurer



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January 15, 2014

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January 15, 2014