

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 4787-03  
Bill No.: HCS for HB 1171  
Subject: Department of Economic Development; Employees-Employers  
Type: Original  
Date: April 24, 2014

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Bill Summary: This proposal establishes the Economic-Education Partnership Act which allows employers to retain withholding taxes up to the amount spent on educational benefits for employees and unpaid interns.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
General Revenue*	(\$56,624 to Unknown)	(\$60,497 to Unknown)	(\$61,159 to Unknown)
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>(\$56,624 to Unknown)</b>	<b>(\$60,497 to Unknown)</b>	<b>(\$61,159 to Unknown)</b>

\*Aggregate total of the retained withholding is \$2 million over life of program.

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

Numbers within parentheses: ( ) indicate costs or losses.  
This fiscal note contains 7 pages.

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

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
General Revenue	1 FTE	1 FTE	1 FTE
<b>Total Estimated Net Effect on FTE</b>	<b>1 FTE</b>	<b>1 FTE</b>	<b>1 FTE</b>

☐ 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).

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

## **FISCAL ANALYSIS**

### **ASSUMPTION**

This proposal establishes the Economic-Education Partnership Act, which allows employers to retain withholding for up to five years until they reach the amount spent on the educational benefits provided to the employee or the wages paid to the employee while the training occurred.

Officials at the **Office of Administration's Division of Budget and Planning (BAP)** assume no fiscal impact to BAP from this proposal. The program is capped at \$2 million, therefore Total and General Revenues could be lowered by that amount. This program may encourage other economic activity, but BAP does not have data to estimate the induced revenues. The Department of Economic Development may have such an estimate.

Officials at the **Department of Economic Development's Division of Business and Community Service (DED)** assume the need for one FTE (Economic Development Specialist II). The FTE would be responsible for reviewing applications, preparing guidelines for the program and ensuring program compliance.

Officials at the **Department of Economic Development's Division of Workforce Development** assume the need for half of an FTE a Workforce Development Specialist IV (\$41,520) to implement and administer this program.

**Oversight** assumes the Division of Business and Community Development would administer this program and therefore the Division of Workforce Development would not need additional resources for this program.

Officials at the **Department of Revenue (DOR)** assume the Withholding Tax Division will develop a new form to allow employers to separately indicate the amount of "retained" withholdings similar to the MO Quality Jobs Program. Withholding Tax requires one Revenue Processing Technician I to process additional withholding correspondence.

§620.3030(4) provides for 5 percent interest to be paid on amounts that need to be repaid. This would require programming as this interest amount may be different than the amount that is established for delinquencies each year under 32.065. For example the interest rate for 2013 on delinquencies is 3 percent. The IT impact is estimated at \$13,759 for 504 FTE hours.

ASSUMPTION (continued)

**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 programming costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, DOR could request funding through the appropriation process.

**Oversight** assumes it is unclear how many employers would be able to qualify for this withholding and therefore, DOR should be able to absorb this program with existing staff. Should there be a significant number of filers to justify another FTE, DOR could request the additional resources through the appropriation process.

Officials at the **Joint Committee on Administrative Rules** assume there is no fiscal impact from this proposal.

Officials from the **Office of the Secretary of State (SOS)** state 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, the SOS also recognizes 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 the office can sustain with the core budget. Therefore, the SOS reserves 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.

**Oversight** assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process.

**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.

**Oversight** assumes this proposal allows employers who qualify to retain the withholding of employees that they pay educational benefits. The aggregate total of the withholding for all employers is \$2 million. Oversight will show an \$0 (no withholding) to Unknown impact in each fiscal year.

<u>FISCAL IMPACT - State Government</u>	FY 2015 (10 Mo.)	FY 2016	FY 2017
<b>GENERAL REVENUE</b>			
<u>Revenue Reduction</u> - withholding taxes retained by employer who pays educational expenses of an employee*	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)
<u>Cost</u> - Department of Economic Development			
Personal Service	(\$30,980)	(\$37,548)	(\$37,923)
Fringe Benefits	(\$15,801)	(\$19,151)	(\$19,343)
Equipment and Expenses	<u>(\$9,843)</u>	<u>(\$3,798)</u>	<u>(\$3,893)</u>
<u>Total Costs - DED</u>	<u>(\$56,624)</u>	<u>(\$60,497)</u>	<u>(\$61,159)</u>
FTE Change - DED	1 FTE	1 FTE	1 FTE
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE*</b>	<b><u>(\$56,624 to Unknown)</u></b>	<b><u>(\$60,497 to Unknown)</u></b>	<b><u>(\$61,159 to Unknown)</u></b>
Estimated Net FTE Change on General Revenue	1 FTE	1 FTE	1 FTE
*Aggregate total of the retained withholding is \$2 million over life of program.			
<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

Small businesses that elect to participate in the program would be positively impacted.

### FISCAL DESCRIPTION

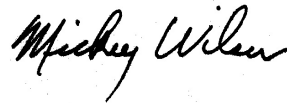
This bill establishes the Economic-Education Partnership Act. If an employer with facilities in Missouri pays for the tuition or fees for an employee or an unpaid intern who is a resident of this state to pursue an associates, bachelors, masters, or doctorate degree in health care, engineering, or information technology related programs, the employer can retain withholding taxes on its employees for up to five years. The amount of withholding taxes that the employer may retain is limited to the amount the employer spent on the employee or unpaid intern's education. An employer is allowed to retain withholding taxes on its employees if the employer trains an individual for a job in the health care, engineering, or information technology field for no more than one year. The amount of withholding taxes that the employer may retain is limited to the amount the employer paid in wages to the individual while training him or her. The total amount of withholding tax that can be retained by all employers under these provisions cannot exceed \$2 million.

The bill requires an employer to enter into an agreement with the Department of Economic Development that requires the employer to employ the individual upon the completion of his or her degree or training for at least as long as the employer is authorized to retain withholding taxes. The department can audit employers to ensure compliance with the program requirements. An employer who fails to comply with the agreement must cease retaining any withholding tax and repay any amounts of withholding tax retained plus interest at 5% per year.

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  
    Division of Business and Community Service  
    Division of Workforce Development  
Department of Revenue  
Joint Committee on Administrative Rules  
Office of Administration  
    Division of Budget and Planning  
Office of the Secretary of State



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April 24, 2014

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April 24, 2014