

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2044-01
Bill No.: HB 927
Subject: Tax Credits; Business and Commerce; Children and Minors
Type: Original
Date: March 30, 2015

Bill Summary: This proposal would authorize a tax credit program for businesses that hire high school students.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
General Rvenue	\$0	(\$37,746 to \$2,037,746)	(Up to \$2,000,000)
Total Estimated Net Effect on General Revenue	\$0	(\$37,746 to \$2,037,746)	(Up to \$2,000,000)

Note: The fiscal note does not reflect the possibility that some of the tax credits could be utilized by insurance companies against insurance premium taxes. If this occurs, the loss in tax revenue would be split between the General Revenue Fund and the County Foreign Insurance Fund, which ultimately goes to local school districts.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Total Estimated Net Effect on <u>Other</u> 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 2016	FY 2017	FY 2018
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Total Estimated Net Effect on FTE	0	0	0

☒ Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** assume this proposal would authorize a qualifying taxpayer that hires an eligible employee to claim a credit against their state tax liability equal to the amount of wages paid to the eligible employee during that tax year. There would be a cap of \$25,000 per taxpayer, and a total cap of \$2,000,000 per calendar year.

Therefore, BAP officials estimate this proposal could reduce general and Total State Revenues up to this amount annually, and could impact the calculation required under Article X, Section 18(e) of the Missouri Constitution.

Oversight will use the BAP estimate of fiscal impact, and notes the tax credits are available for tax years starting January 1, 2016. Therefore, this tax credit could be claimed on a taxpayer's tax return for 2016, which would be filed in FY 2017. Oversight will reflect the impact as \$0 (no credits claimed) to the \$2 million annual cap and indicate a revenue reduction for the General Revenue Fund up to \$2 million per year.

Oversight is aware some taxpayers would reduce their estimated payments or withholding in anticipation of a tax reduction, but for fiscal note purposes will include the entire fiscal impact for the proposal in the year the tax returns would be filed.

Officials from the **Department of Elementary and Secondary Education (DESE)** assume this proposal would have a negative fiscal impact on the General Revenue Fund of \$2 million per year and stated tax subsidies reduce the state's tax revenues and reduce the amount of money available for public schools and public school students.

Officials from the **Department of Revenue (DOR)** noted that beginning January 1, 2016, the proposal would allow a taxpayer to apply for a tax credit equal to the wages paid to an individual older than 16 and younger than 19 that is currently enrolled in a secondary school in Missouri. No taxpayer could claim more than \$25,000 in any tax year, and the program would be capped at \$2 million in any calendar year.

ASSUMPTION (continued)

Administrative Impact

DOR officials assume the Department would require forms and programming changes. In addition, Personal Tax would require one additional Revenue Processing Technician I (Range 10, Step L) for tax credits claimed, and Corporate Tax would require one additional Revenue Processing Technician I (Range 10, Step L) for tax credits claimed.

DOR officials also assume Collections and Tax Assistance (CATA) would have additional customer contact on the credit and related notice of adjustments, and would require two additional Tax Collection Technicians I (Range 10, Step L) for additional contacts annually on the delinquent and non-delinquent tax lines. Each technician would require CARES equipment and license.

The DOR estimate of cost to implement this proposal including four additional employees and the related benefits, equipment, and expense totaled \$164,089 for FY 2016, \$168,172 for FY 2017, and \$169,922 for FY 2018.

IT impact

DOR officials also provided an estimate of the IT cost to implement this proposal of \$37,746 based on 503 hours of programming to make changes to DOR systems, at the current IT contract rate of \$75 per hour.

Oversight will include the DOR estimate of IT cost to implement this proposal in this fiscal note.

Oversight has no information as to the number of amount of tax credits that might be claimed under this program; however, if 80 employers claimed the maximum amount of credit, no further claims would be allowed for that year. Oversight assumes there would be more than 80 claims per year, but also assumes DOR could absorb the administrative cost of implementing this proposal and processing a relatively low number of claims per year. If unanticipated costs are incurred or if multiple proposals are implemented which create a significantly larger workload for DOR, resources could requested through the budget process.

ASSUMPTION (continued)

Officials from the **Department of Insurance, Financial Institutions, and Professional Registration (DIFP)** assumed a similar proposal (HB 428 LR 1205-01) could lead to an unknown reduction of premium tax revenue as a result of the authorization of the tax credit for contributions to school foundations. DIFP officials stated that premium tax revenue is split 50/50 between General Revenue and County Foreign Insurance Fund except for domestic Stock Property and Casualty Companies who pay premium tax to the County Stock Fund. The County Foreign Insurance Fund is later distributed to school districts throughout the state. County Stock Funds are later distributed to the school district and county treasurer of the county in which the principal office of the insurer is located. It is unknown how each of these funds may be impacted by tax credits each year.

DIFP also assumes 56 hours of programming would be required at an hourly rate of \$75 for a total of \$4,212.

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

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 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 greater than 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 this proposal would not have a fiscal impact to their organization in excess of existing resources.

<u>FISCAL IMPACT - State Government</u>	FY 2016 (10 Mo.)	FY 2017	FY 2018
GENERAL REVENUE FUND			
<u>Cost - DOR</u>			
IT cost	\$0	(\$37,746)	\$0
<u>Revenue reduction -</u>		(Up to	(Up to
Tax credit program	<u>\$0</u>	<u>\$2,000,000)</u>	<u>\$2,000,000)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>\$0</u>	<u>(\$37,746 to \$2,037,746)</u>	<u>(Up to \$2,000,000)</u>

Note: The fiscal note does not reflect the possibility that some of the tax credits could be utilized by insurance companies against insurance premium taxes. If this occurs, the loss in tax revenue would be split between the General Revenue Fund and the County Foreign Insurance Fund, which ultimately goes to local school districts.

<u>FISCAL IMPACT - Local Government</u>	FY 2016 (10 Mo.)	FY 2017	FY 2018
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

This proposal would have a direct fiscal impact to small businesses who are able to hire high school students and claim the tax credits.

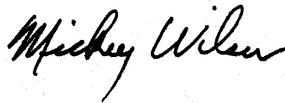
FISCAL DESCRIPTION

This proposal would authorize a tax credit program for businesses that hire high school students.

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 Elementary and Secondary Education
Department of Insurance, Financial Institutions,
 and Professional Registration
Department of Revenue



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Director
March 30, 2015

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March 30, 2015