

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5994-02
Bill No.: HB 2417
Subject: Tax Deduction; Disabilities; Probation and Parole; Employees - Employers
Type: Original
Date: April 27, 2016

Bill Summary: This proposal authorizes an income tax deduction for certain small businesses who hire an individual who is disabled or who was recently discharged from a correctional facility.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
General Revenue	(\$22,932)	Up to (\$625,000)	Up to (\$625,000)
Total Estimated Net Effect on General Revenue	(\$22,932)	Up to (\$625,000)	Up to (\$625,000)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Total Estimated Net Effect on <u>Other</u> 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 2017	FY 2018	FY 2019
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Total Estimated Net Effect on FTE	0 FTE	0 FTE	0 FTE

☒ 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 2017	FY 2018	FY 2019
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Oversight was unable to receive some of the agency responses in a timely manner due to the short fiscal note request time. Oversight has presented this fiscal note on the best current information that we have or on prior years information regarding a similar bill. Upon the receipt of agency responses, Oversight will review to determine if an updated fiscal note should be prepared and seek the necessary approval of the chairperson of the Joint Committee on Legislative Research to publish a new fiscal note.

In response to a similar proposal last year, HB 862, officials at the **Department of Elementary and Secondary Education** assumed tax subsidies reduce the state's tax revenues and decrease the amount of money available for public schools and all public school students.

In response to a similar proposal last year, HB 862, officials at the **Joint Committee on Administrative Rules** and the **Department of Corrections** each assumed no fiscal impact from this proposal to their respective organizations.

In response to a similar proposal last year, HB 862, officials at the **Office of Administration's Division of Budget and Planning (BAP)** assumed the proposal provides a process whereby a qualifying taxpayer may receive a \$500 tax credit (Oversight notes that the prior year proposal provided for a tax credit) for hiring a disabled employee or person discharged from a state or federal correction facility within 12 months preceding the hiring. The business would be able to claim this tax credit for each person hired for three years. There is a \$10,000,000 aggregate annual cap. Therefore, BAP estimates this proposal could reduce general and total state revenues up to this amount annually.

Oversight notes the similar proposal last year provided for a \$10,000,000 annual cap on a tax credit, while the current proposal provides for a \$10,000,000 annual cap on a tax deduction. Assuming the full annual deduction cap of \$10,000,000 is claimed, and a maximum tax rate of 6.25%, Oversight will use \$625,000 as the revenue reduction amount.

In response to similar legislation filed in a prior year, HB 862, officials at the **Department of Revenue (DOR)** assumed the proposal required computer programming changes to various tax systems. The IT portion of this fiscal impact was estimated at \$22,932 for 840 FTE hours. DOR also assumed 5 additional FTE would be required.

Oversight assumes the DOR could request additional FTE to process the additional credits/returns if the need arises, but will show IT cost of \$22,932.

ASSUMPTION (continued)

In response to similar legislation filed last year, HB 862, officials from the **Office of the Secretary of State (SOS)** stated 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 this creates a new tax deduction beginning January 1, 2017, with a \$10 million annual deduction cap. A business would not be able to claim this deduction on their taxes until FY 2018. Therefore, Oversight will show the amount of loss revenue to the State in FY 2017 as \$0.

<u>FISCAL IMPACT - State Government</u>	FY 2017 (10 Mo.)	FY 2018	FY 2019
GENERAL REVENUE			
<u>Revenue Reduction</u> - creation of tax deduction for hiring a disabled person or person discharged from a correctional facility	\$0	Up to (\$625,000)	Up to (\$625,000)
<u>Cost</u> - Department of Revenue Computer Programming	<u>(\$22,932)</u>	<u>\$0</u>	<u>\$0</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>(\$22,932)</u>	<u>Up to (\$625,000)</u>	<u>Up to (\$625,000)</u>
 <u>FISCAL IMPACT - Local Government</u>	 FY 2017 (10 Mo.)	 FY 2018	 FY 2019
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

Small businesses that qualify for the tax deduction could be positively impacted.

FISCAL DESCRIPTION

Starting January 1, 2017, this bill allows a tax deduction for those small businesses that employ a disabled employee or ex-offender employee. The deduction shall be \$5,000 for each qualifying disabled or ex-offender employee, not to exceed \$10 million, and may be applied in each of the subsequent three tax years.

A qualifying disabled employee must work at least 25 hours per week, have been employed by the small business for at least one year, and who is at least 50% disabled as determined by the Social Security Administration or the Department of Veterans Affairs, or determined to be disabled by the Division of Vocational Rehabilitation and is participating in the division's job placement program. A qualifying ex-offender employee must work at least 40 hours per week, have been employed for at least one year, and discharged from a correctional facility during the 12 months preceding such employment.

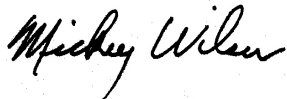
FISCAL DESCRIPTION (continued)

The provisions of the bill will expire December 31, 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 Administration's Division of Budget and Planning
Joint Committee on Administrative Rules
Department of Elementary and Secondary Education
Department of Corrections
Office of the Secretary of State
Department of Revenue



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Director
April 27, 2016

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April 27, 2016