

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0211-02
Bill No.: HCS for HB 92
Subject: Taxation and Revenue - General; Taxation and Revenue - Income; Tax Incentives;
Business and Commerce
Type: Original
Date: April 15, 2019

Bill Summary: This proposal establishes the First-Time Business Owner Savings Account and authorizes a tax deduction for contributions to a savings account dedicated to starting a new business.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
General Revenue	\$0	Up to (\$960,185 to \$2,207,807)	Up to (\$924,657 to \$4,284,942)
Total Estimated Net Effect on General Revenue	\$0	Up to (\$960,185 to \$2,207,807)	Up to (\$924,657 to \$4,284,942)

*** Oversight assumes a positive unknown to negative unknown for revenue estimates until we are able to estimate revenue or verify the data and models provided. Oversight will also reflect B&P's revenue estimates for the changes to the tax rates.**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
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 2020	FY 2021	FY 2022
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
General Revenue	0 FTE	2 FTE	2 FTE
Total Estimated Net Effect on FTE	0 FTE	2 FTE	2 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 2020	FY 2021	FY 2022
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Office of Administration Division of Budget and Planning (B&P)** assume §143.1155 would create a tax deduction, beginning in tax year 2020, for taxpayers who contribute to a first-time business owner savings account. The deduction shall equal half of qualifying contributions.

Section 443.1011 creates the "First-Time Business Owner Savings Account Act". This section defines first time business owners as individuals who have never owned a business.

Section 443.1014 places a cap on the deduction granted for qualifying contributions of \$800 for individuals and \$1,600 for married filing-joint taxpayers. The maximum amount of all contributions for all tax years to a first-time business owner account is \$20,000 and the maximum balance allowed within the account is \$30,000.

Section 443.1014 further stipulates that an account holder must designate a beneficiary for the money within the account, no account may have multiple beneficiaries at one time, and an account holder may not have multiple accounts with the same beneficiary. However, an individual may be designated as a qualified beneficiary on multiple accounts.

Section 443.1015 allows for the recapture of all money withdrawn within a year of the first deposit or if the money is not used for qualifying costs. The recaptured amount is to be added to the Missouri adjusted gross income of the account holder or qualified beneficiary. B&P is unable to determine how much, if any, funds could be recaptured under this provision.

B&P Impact Summary

According to data published by the United States Bureau of Labor Statistics (BLS) the five-year average (from 2013-2017) for new private establishments formed in Missouri was 19,660. The Small Business Association and the Minority Business Development Agency estimate that the average start-up costs of new businesses range from \$3,000, for small home-based businesses, to \$30,000, for larger or franchised businesses. Since the average costs are above the annual caps included in the proposal, B&P estimates that the full contribution amount allowed for the deduction would be utilized annually. B&P was unable to determine the proportion of businesses that would be created by individual taxpayers versus married filing-joint taxpayers. Therefore, B&P will utilized a range from all single individuals to all married filing-joint for the purpose of this fiscal note. Further research indicates that the average length of time spent opening a business is one year or less. Therefore, for the purpose of this fiscal note, B&P assumes that contributions into a first-time business owner savings account would only occur for one year.

ASSUMPTION (continued)

B&P estimates that annual deduction claims from this proposal could range between \$15,728,000 (19,660 business owners x \$800 cap) up to \$31,456,000 (19,660 business owners x \$1,600 cap). However, deductions do not reduce revenues on a dollar for dollar basis, but rather in proportion to the top tax rate applied. Therefore, B&P will show the estimated impacts throughout the implementation of the tax rate reductions from SB 509 (2014).

Tax Year	Current Law	TY 2020*	TY 2021*	TY 2022*
Tax Rate	5.4%	5.3%	5.2%	5.1%
Low Estimate	\$849,312	\$833,584	\$817,856	\$802,128
High Estimate	\$1,698,624	\$1,667,168	\$1,635,712	\$1,604,256

*Assumes each SB 509 (2014) trigger is reached for rate reduction.

Therefore, B&P estimates that this proposal could reduce Total State Revenue and General Revenue by \$849,312 to \$1,698,624 or by \$833,584 to \$1,667,168 in FY 2021. Once SB 509 (2014) has fully implemented, this proposal could reduce Total State Revenue and General Revenue by \$802,128 to \$1,604,256 annually.

Officials at the **Department of Revenue (DOR)** assume §143.1155 shall be known and may be cited as the "First-Time Business Owner Tax Deduction." For all tax years beginning January 1, 2020, a taxpayer shall be allowed a deduction equal to fifty percent of the taxpayer's contributions to a first-time business owner savings account in the tax year of the contribution. The amount of the deduction claimed shall not exceed the amount of the taxpayer's Missouri adjusted gross income for the tax year the deduction is claimed.

Based on the information retrieved from the "Bureau of Labor Statistics," in 2017 there were approximately 24,728 business startups in Missouri. Since the Department is unable to determine the amount of new business owners who file single verses joint returns, the Department will reflect the full impact in which all qualifying first time business owners would receive a deduction in the amount of \$1,600.

Because this is a deduction (before tax) it must be multiplied by the tax rate to get the fiscal impact. When multiplied by the highest tax rate (5.3%), the total fiscal impact of the First-Time Business Owner Savings Account deduction would be an estimated \$2,096,934 (24,728 x 1,600 x 5.3%) in FY 2021.

ASSUMPTION (continued)

This number is subject to increase by the \$2,096,934 each year until the number will become stagnant at ten years. (The Department estimates that this annual amount will increase by \$2,096,934 each fiscal year for 10 years (because the maximum contribution is \$3,200 per year with a maximum amount per account set at \$30,000. $\$30,000/\$3,200 = 9.375$ which the Department has rounded to 10, meaning a business in year ten will stop contributing.)

The Department assumes each qualifying business owner would be the beneficiary of only one First-Time Business Owner Savings Account. The proposed legislation allows an unlimited amount of First-Time Business Owner Savings Account be set up with the same beneficiary provided that each account has different account owners. Therefore, this estimated impact is subject to an unknown increase.

Estimated Decrease in General Revenue by Fiscal Year				
FY20	FY21	FY22	FY23	FY24
\$0	\$2,096,934	\$4,193,869	\$6,290,803	\$8,387,738

DOR's Personal Tax Division requires 1 Revenue Processing Technician I (\$24,360) for every 14,700 errors created and 1 Revenue Processing Technician I for every 5,700 pieces of correspondence generated. Additionally, Personal Tax may require form changes to add the line item to the Missouri Form 1040.

Oversight will show the DOR FTE in the fiscal note starting in FY 2021.

Oversight notes the changes in this proposal would be effective beginning January 1, 2020, and the first income tax returns would be filed reflecting these changes in January, 2021 (FY 2021). For fiscal note purposes, Oversight would include the revenue reductions in the year in which the affected tax returns would be filed; therefore, the first year this proposal would have an impact would be FY 2021.

Oversight notes the current projected Individual Income Tax Rate is calculated with SB 509 (2014) and HB 2540 (2018) as follows:

TY 2018 it was 5.9% (.1% reduction from SB 509)

TY 2019 it is 5.4% (.1% reduction from SB 509 + .4% reduction from HB 2540)

TY 2020 will be 5.3% (.1% reduction from SB 509)

TY 2021 will be 5.2% (.1% reduction from SB 509)

TY 2022 will be 5.1% (last .1% reduction from SB 509)

ASSUMPTION (continued)

Oversight notes that DOR calculated the tax rate at 5.4%. Oversight notes that SB 509 (2014) may reduce the tax rate further in future fiscal years and therefore, DOR's estimate may be overstated.

As shown by B&P and DOR, it is difficult to predict the number of businesses that may participate in such a program or how long they would accumulate funds in a savings account before starting a business. **Oversight** will show a range on the fiscal note as 'up to' the estimated low and high by B&P and DOR.

Officials at the **Department of Insurance, Financial Institutions and Professional Registration** assume there is no fiscal impact to their Department from this proposal.

Officials at the **Joint Committee on Administrative Rules (JCAR)** assume this proposal is not anticipated to cause a fiscal impact beyond current appropriations.

Oversight assumes JCAR will be able to administer any rules resulting from this proposal with existing resources.

In response to the previous version, 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 \$5,000. 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 currently does not have the data or resources available to produce independent revenue projections, therefore Oversight uses the same assumptions for revenue growth as the FY 2020 Consensus Revenue Estimate (CRE) for revenue growth in all future years. The CRE assumes an increase in net general revenue collections of \$192.6 million for FY 2020.

ASSUMPTION (continued)

Oversight notes pursuant to §143.011 - §143.022 (SBs 509 & 496 (2014)) if the previous fiscal year's net general revenue collections exceed the highest net general revenue collections of the three previous fiscal years by at least \$150 million, then there will be a reduction in the individual income tax rate by one-tenth of a percent and a reduction for individual income tax filers of 5% of "business income." These reductions will reduce net General Revenue collections by an estimated \$160.0 million annually. Oversight notes the proposed legislation may impact future net revenue collections and could impact future triggering of the rate reductions required under §143.011 - §143.022.

Oversight notes that it **does not currently have the resources and/or access to state tax data** to produce an independent revenue estimate and is unable to verify the revenue estimates provided by B&P and DOR.

Oversight assumes a positive unknown to negative unknown for revenue estimates until we are able to estimate revenue or verify the data and models provided. Oversight will also reflect B&P and DOR's revenue estimates.

<u>FISCAL IMPACT - State Government</u>	FY 2020 (10 Mo.)	FY 2021	FY 2022
GENERAL REVENUE			
<u>Revenue Reduction</u> - DOR §143.1155 tax deduction for contributions to a 1 st time business owner savings account	\$0	Up to (\$849,312 to \$2,096,934)	Up to (\$833,584 to \$4,193,869)
<u>Cost</u> - DOR §143.1155			
Personal Service	\$0	(\$49,207)	(\$49,699)
Fringe Benefits	\$0	(\$40,217)	(\$40,367)
Equip & Exp	\$0	(\$21,449)	(\$1,007)
<u>Total Cost</u> - DOR	\$0	(\$110,873)	(\$91,073)
FTE Change 2 FTE	0 FTE	2 FTE	2 FTE
ESTIMATED NET EFFECT ON GENERAL REVENUE	\$0	<u>Up to (\$960,185 to \$2,207,807)</u>	<u>Up to (\$924,657 to \$4,284,942)</u>
Estimated Net FTE Change on General Revenue	0 FTE	2 FTE	2 FTE

<u>FISCAL IMPACT - Local Government</u>	FY 2020 (10 Mo.)	FY 2021	FY 2022
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

First time small business owners may be impacted.

FISCAL DESCRIPTION

Beginning January 1, 2020, this bill establishes the "First-Time Business Owner Savings Account Act" and authorizes an income tax deduction for 50% of the contributions to such a savings account dedicated to establishing a business for a person who has never owned a business before. The bill specifies that the annual contribution deduction limit is \$1,600 per taxpayer. The maximum contribution limit for all tax years is \$20,000 and the maximum total amount in the savings account is \$30,000.

Funds in the savings account can be used only for eligible expenses that result in the startup of a new business or that occur during the first month of a new business. Any withdrawal of funds for other purposes will be subject to recapture and penalties.

The provisions of the bill will expire December 31, six years from 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 Insurance, Financial Institutions and Professional Registration
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 15, 2019

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April 15, 2019