

HCS HB 1202 -- INCENTIVES FOR NEW BUSINESSES

SPONSOR: Fitzwater

COMMITTEE ACTION: Voted "Do Pass with HCS" by the Standing Committee on Economic Development by a vote of 8 to 1. Voted "Do Pass" by the Standing Committee on Rules- Legislative Oversight by a vote of 8 to 0.

The following is a summary of the House Committee Substitute for HB 1202.

This bill modifies numerous provisions of law relating to incentives for new businesses.

STATE CONTRACTS (Section 34.195, RSMo)

Beginning July 1, 2022, this bill requires 5% of all state contracts to be awarded to businesses that have been in operation for less than five years.

TAXATION (Sections 143.022 and 143.071)

Currently, there is an individual income tax deduction for an amount of 10% of business income. This deduction phases in to 20% by 5% increments if certain triggers are met. No increase to the deduction will go into effect unless the net general revenue collected in the previous fiscal year exceeded the amount of net general revenue in any one of the three fiscal years prior to such year by at least \$150 million. Shareholders of "S" corporations and partners in partnerships will be allowed a proportional deduction based their share of ownership.

As specified in this bill, any remaining amount of business income from a taxpayer that begins business operations in this state on or after January 1, 2022, will be reduce by:

(1) For the first tax year in which the taxpayer's business is in operation, the first \$250,000 of such amount shall be reduced by 50%;

(2) For the second tax year in which the taxpayer's business is in operation, the rate of taxation on the first \$500,000 of such amount shall be reduced by 37.5%;

(3) For the third tax year in which the taxpayer's business is in operation, the rate of taxation on the first \$750,000 of income

shall be reduced by 25%;

(4) For the fourth tax year in which the taxpayer's business is in operation, the rate of taxation on the first \$1 million of income shall be reduced by 12.5%.

Additionally, for all tax years beginning on or after January 1, 2022, a tax is hereby imposed upon the Missouri taxable income of a corporation validly licensed under the applicable laws that begins operations in this state on or after January 1, 2022, as follows:

(1) For the first tax year of an eligible new corporation, the first \$250,000 of income will be exempt from taxation and any remaining portion of income will be taxed at a rate of 4%;

(2) For the second tax year of an eligible new corporation, the first \$500,000 of income will be taxed at a rate of 1% and any remaining portion of income will be taxed at a rate of 4%;

(3) For the third tax year of an eligible new corporation, the first \$750,000 of income will be taxed at a rate of 2% and any remaining portion of income shall be taxed at a rate of 4%;

(4) For the fourth tax year of an eligible new corporation, the first \$1 million of income will be taxed at a rate of 3% and any remaining portion of income shall be taxed at a rate of 4%;

(5) For the fifth tax year of an eligible new corporation and for all tax years thereafter, all income will be taxed at a rate of 4%.

#### NON-COMPETE AGREEMENTS (Section 431.203)

This bill prohibits a covenant not to compete beginning with the effective date of this bill, provided that a covenant not to compete is created after the effective date of this bill and an employee or prospective employee receives \$90,000 or less in income from such employer or prospective employer.

#### OFFICE OF ENTREPRENEURSHIP (Section 620.3800)

This bill creates the "Office of Entrepreneurship" within the Department of Economic Development. The Office will employ someone to promote policies and initiatives to support the growth of entrepreneurship in the state. The Office will work with stakeholders and communities to provide information and technical support to entrepreneurs.

The following is a summary of the public testimony from the committee hearing. The testimony was based on the introduced

version of the bill.

PROPONENTS: Supporters say that this bill is designed to assist startup companies. This bill reduces risks involved in starting a business and new businesses establish themselves. This bill ensures that 5% of state contracts go to new businesses. This is important because getting a government contract not only financially assists a new business, but also helps the business establish credibility. The bill also lowers the tax liability for new businesses. Lowering taxes on new businesses has a greater impact than lowering taxes on larger, established businesses. This bill prohibits covenants not to compete. Some states have bans on covenants not to compete and have much more entrepreneurial economies as a result of these bans. Additionally, this bill creates the Office of Entrepreneurship in order to direct entrepreneurs to resources such as business incubators.

Testifying for the bill were Representative Fitzwater; Victor W. Hwang, Right To Start; Next Missouri; Washington University ; Missouri Chamber of Commerce and Industry; Greater Kansas City Chamber of Commerce; and United WE.

OPPONENTS: Those who oppose the bill say that the ban on covenants not to compete hurts Missouri businesses because many companies devote resources to employees and companies need these in order to retain these employees. Additionally, companies, including new businesses, may rely on these agreements in order to protect trade secrets. Also, covenants not to compete could have implications for companies that have employees with security clearances. The current restrictions on covenants not to compete are reasonable and should not be changed.

Testifying against the bill were Missouri Hospital Association; Missouri Insurance Coalition; and Boeing.

Written testimony has been submitted for this bill. The full written testimony can be found under Testimony on the bill page on the House website.