

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1976H.02P
 Bill No.: Perfected HCS for HB 1038
 Subject: Taxation and Revenue - General; Taxation and Revenue - Income; Tax Incentives;
 Department of Revenue; Employees - Employers
 Type: Original
 Date: April 17, 2023

Bill Summary: This proposal authorizes the "Intern and Apprentice Recruitment Act", relating to a tax credit for employing interns and apprentices.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
General Revenue Fund*	\$0	Up to (\$1,073,004)	Up to (\$1,126,869)
Total Estimated Net Effect on General Revenue	\$0	Up to (\$1,073,004)	Up to (\$1,126,869)

*Oversight notes the fiscal impact estimate reflects up to maximum allotted cap (\$1M), plus one additional FTE for the Department of Economic Development, for this new tax credit.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
General Revenue	0 FTE	1 FTE	1 FTE
Total Estimated Net Effect on FTE	0 FTE	1 FTE	1 FTE

- Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.
- Estimated Net Effect (savings or increased revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration – Budget & Planning (B&P)** assume the proposed legislation would establish the "Intern and Apprentice Recruitment Act". Beginning on January 1, 2024, employers will be able to claim a tax credit of \$1,500 for each intern they hired at a pay rate equal or greater than minimum wage so long as the total number of interns employed for the tax year the credit is claimed exceeds the average number of interns employed by the taxpayer over the previous three years, the interns work a minimum of 60 hours per month for 2 consecutive months and a minimum of 140 hours of work per calendar year. The total amount of tax credits is limited to \$9,000 per employer per tax year, and the cumulative amount of the tax credit is limited to \$1,000,000 per tax year. Priority will be given to employers who have been in business less than 5 years, and tax credits will not be able to be carried forward to any subsequent tax year.

Applications for the tax credit will be created by the Department of Economic Development (DED). DED is also required to create an annual report containing statistical information regarding the tax credits issued the previous year. The program will sunset on December 31, 2030 unless reauthorized. If the program is reauthorized, the program will sunset on December 31, 2036 and will terminate on September 1 of the calendar year the program sunsets.

Oversight notes the officials from the B&P assume the proposal will have no fiscal impact on their organization. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact for B&P in the fiscal note.

Officials from the **Department of Revenue (DOR)** note:

Starting January 1, 2024, this would give a qualified taxpayer a \$1,500 tax credit for each qualified intern or apprentice employed by the taxpayer. The qualified intern or apprentice must be paid at least minimum wage. The qualified intern must work at least 60 hours a month for 2 consecutive months, and be a student at a Missouri college or university to be qualified. The apprentice has to have completed at least one full year of a qualified apprenticeship program as approved by the Department of Higher Education and Workforce Development to qualify.

Taxpayers are limited to claiming no more than \$9,000 (6 interns or apprentices) a year. The credits are not refundable and cannot be carried forward or back. The total amount of credits that can be claimed in a year is \$1,000,000. Should the amount of credits claimed reach the cap then credits should be given to employers who have in been in business less than five years.

This proposal allows the tax credit against the individual income tax return, corporate tax return and property taxes. Property tax is not handled by the Department of Revenue, so for the simplicity of the fiscal note they will assume all of the tax credits will be applied to DOR's income tax returns.

According to information received from the Department of Higher Education and Workforce Development they have 471 active apprenticeship programs in place. Currently 16,983 active apprentices are in those programs. It is unclear how many of those people would meet each of the requirements necessary to be a qualified apprentice under this program. If all of them meet the requirements this would result in \$25,474,500 (16,983 apprentices* \$1,500 credit) credits eligible to be claimed.

DOR is unable to estimate how many students are currently serving as interns that would qualify for this credit. It appears the full cap of \$1,000,000 may be reached annually. This proposal will result in a loss of \$1,000,000 in general revenue annually. This starts on January 1, 2024, but will not impact general revenue until FY 2025 when the first tax returns are filed claiming the credit.

This proposal requires that certain conditions are met in order for the taxpayer to qualify for the tax credit. This proposal establishes that DED would do the verification and certification process. DOR assumes they will create the form that DED will use for the certification, so that it can be processed by their scanners. Creation of the form is estimated at \$10,000.

This will be a new income tax credit and it would be added to the MO-TC and information about the credit would be added to DOR website and changes would be needed in Missouri's individual income tax computer system. DOR notes the costs to update these items is \$7,193.

DOR assumes it can absorb the cost of redeeming the credit with existing staff. Should the number of redemptions from this credit or a combination of other bills passing justify the addition of FTE DOR would seek that FTE through the appropriation process.

- 1 FTE Associate Customer Service Representative for every 6,000 credits redeemed
- 1 FTE Associate Customer Service Representative for every 7,600 errors/correspondence

Oversight assumes DOR is provided with core funding to handle a certain amount of activity each year. Oversight assumes DOR could absorb the 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** does not have any information to the contrary. Therefore, Oversight will reflect a zero administrative impact for DOR in the fiscal note.

Officials from the **Department of Economic Development (DED)** note:

135.457 creates the "Intern and Apprentice Recruitment Act".

For all tax years beginning on or after January 1, 2024, a taxpayer can claim a tax credit in an amount equal to \$1,500 for each intern or apprentice hired at a pay rate equal to or greater than minimum wage. Total amount claimed by a taxpayer cannot exceed \$9,000 in any given tax year.

Program cap: \$1M per tax year starting with the FY2025 year.

Credits are not refundable, sellable, transferable and do not carry forward.

DED must complete an annual report.

The program will automatically sunset six years after the effective date unless reauthorized by an act of the general assembly.

DED will need to hire 1 FTE to administer the program. Creating a new tax credit will likely reduce annual TSR by up to the annual cap on the program of \$1,000,000.

Oversight notes that per [U.S. DOL. GOV](https://www.dol.gov), Missouri had 13,944 active apprentices across 460 registered programs in 2021. Additionally, same period, Missouri has seen 8,104 new Apprenticeships and 3,235 completed Apprenticeships.

Oversight notes the proposal allows receipt of tax credit for two categories of claims as follow:

- Interns shall work a minimum of sixty hours per month for two consecutive months during the tax year for which the credit is claimed, and
- Apprentices shall complete a minimum of one hundred forty-four hours of work in a calendar year and a copy of the qualified apprenticeship program certification is submitted with the claim for such tax credit.

Oversight notes the tax credit would allow each taxpayer receive credit for up to \$9,000 (\$9,000/\$1,500), reflecting 6 interns or apprentices in any combination thereof.

Oversight notes the term “taxpayer” in this proposal represents any individual, firm, partner in a firm, corporation, partnership, shareholder in an S corporation, or member of a limited liability company subject to the state income tax.

Oversight notes, per section 135.457 5 the cumulative amount of tax credits allowed to all taxpayers under this section shall not exceed one million dollars per tax year.

Oversight notes that the proposal would allow maximum of 667 ($\$1,000,000 / \$1,500$) individual, or approximately 111 such an organizations ($667/6$) to receive this the credit.

Oversight notes that currently there are at least 460 such programs, as noted from the U.S. DOL statistics above. Therefore, **Oversight** will note a range from \$0 (no taxpayer claims the tax credit) to \$1,000,000 (the tax credit utilization is maximized) in general revenue annually beginning FY 2025 when the first tax returns will be filed to claim the credit.

Oversight assumes that the DED request for 1 FTE (Senior Economic Development Specialist at \$74,664 annually) is plausible and will note the cost in the fiscal note beginning in FY 2025 (the

first income taxes will be filed in January 2025, 6 month of FY 2025 period) and annually thereafter.

Oversight notes that the proposal states that no tax credit claimed under this section shall be assigned, transferred, sold, carried forward, or otherwise conveyed.

Oversight notes that priority shall be given to taxpayers that have been in business for less than five years, with the remaining tax credits to be distributed based on the order in which they are claimed.

Officials from the **Department of Workforce Development & Higher Education** and **Department of Labor and Industrial Relations** both assume the proposal will have no fiscal impact on their respective organizations. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for these agencies.

Rule Promulgation

Officials from the **Joint Committee on Administrative Rules** assume this proposal is not anticipated to cause a fiscal impact beyond its current appropriation.

Officials from the **Office of the Secretary of State (SOS)** note 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 its 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 notes the proposal adds clarifying language defining which students qualify as interns (a student who is enrolled at an approved private or public institution and who has completed a minimum of thirty credit hours). **Oversight** assumes the clarification of this additional requirement would not add additional cost to the proposal.

<u>FISCAL IMPACT – State Government</u>	FY 2024	FY 2025 (6 Mo.)	FY 2026
GENERAL REVENUE			
<u>Revenue Reduction – Section 135.457</u> "Intern and Apprentice Recruitment Tax Credit maximum cap. (p.5)	\$0	Up to (\$1,000,000)	Up to (\$1,000,000)
<u>Costs – DED FTE – Section 135.457 8.</u>			
Personnel Service	\$0	(\$38,079)	(\$77,680)
Fringe Benefits	\$0	(\$22,038)	(\$44,646)
Expense & Equipment	\$0	(\$12,887)	(\$4,543)
<u>Total Costs – DED (p.5)</u>	<u>\$0</u>	<u>(\$73,004)</u>	<u>(\$126,869)</u>
FTE Change	\$0	1 FTE	1 FTE
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>\$0</u>	<u>Up to (\$1,073,004)</u>	<u>Up to (\$1,126,869)</u>

<u>FISCAL IMPACT – Local Government</u>	FY 2024 (10 Mo.)	FY 2025	FY 2026
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT – Small Business

A direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

This bill establishes the "Intern and Apprentice Recruitment Act".

Beginning January 1, 2024, a taxpayer may claim a tax credit against the taxpayer's state taxes in an amount equal to \$1,500 for each intern or apprentice hired at a pay rate equal to or greater than minimum wage, provided that the following criteria are met:

(1) The total number of interns or apprentices employed for the tax year that the credit is claimed exceeds the average number of interns or apprentices employed by the taxpayer over the previous three years;

(2) Interns shall work a minimum of 60 hours per month for two consecutive months during the tax year for which the credit is claimed, and a copy of each intern's official transcript is submitted; and

(3) Apprentices shall complete a minimum of 144 hours of work in a calendar year, and a copy of the qualified apprenticeship program certification is submitted.

The total amount of tax credits claimed by a taxpayer shall not exceed \$9,000 in any given tax year. The cumulative amount of tax credits allowed shall not exceed \$1 million per tax year. If the amount of tax credits claimed in a tax year exceeds \$1 million, priority shall be given to taxpayers that have been in business for less than five years, with the remaining tax credits to be distributed based on the order in which they are claimed.

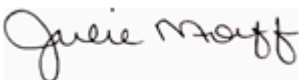
Tax credits shall not be refundable. No tax credit shall be carried forward to any subsequent tax year. Nor shall any tax credit be assigned, transferred, sold, or otherwise conveyed.

Application for the tax credits shall be made to the Department of Economic Development and shall include information on participation in the qualified apprenticeship program or a copy of the official transcript for the intern being claimed.

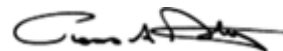
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of Administration – Budget & Planning
Department of Revenue
Department of Workforce Development & Higher Education
Department of Labor and Industrial Relations
Department of Economic Development
Joint Committee on Administrative Rules



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April 17, 2023



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