

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5684-02
Bill No.: HCS for HB 1661
Subject: Business and Commerce; Tax Credits; Revenue Dept.
Type: Original
Date: March 26, 2012

Bill Summary: This proposal would change existing provisions relating to tax deductions for new job creation.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
General Revenue	(Unknown)	(Unknown)	(Unknown)
Total Estimated Net Effect on General Revenue Fund	(Unknown)	(Unknown)	(Unknown)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 5 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
Total Estimated Net Effect on FTE	0	0	0

Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of the Secretary of State (SOS)** assume 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 in excess of what 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 that this proposal would not have a fiscal impact to their organization in excess of existing resources.

Officials from the **Department of Economic Development, the Department of Labor and Industrial Relations, and the Department of Revenue** assume this proposal would have no fiscal impact on their organizations.

Officials from the **Office of Administration, Division of Budget and Planning (BAP)** assume this proposal would not result in additional costs or savings to their organization.

BAP officials stated that it appears the intent of this legislation was to include S-corporations and LLCs as partnerships to claim the deduction for small businesses that create jobs. However, the definition of "taxpayer" is not changed.

BAP officials also stated that DOR provided the following data on the number of business income tax filers by type.

S-Corps	141,783	34.9%
LLCs as partnerships	23,615	5.8%
Sole Proprietors	84,191	20.7%
Corporations	146,732	36.1%
LLC's as corporations	<u>10,289</u>	2.5%
Total	<u>406,610</u>	

ASSUMPTION (continued)

Thus, 40.7% of the business filers are S-Corporations or LLC/Partnerships. However, BAP does not have additional data regarding the types of businesses by size of firm.

BAP previously estimated this section of law might reduce General and Total State Revenue by \$10.7 million to \$21.4 million. That estimate included the universe of small businesses, and did not exclude S-corps or LLC/Partners. Forty percent of that estimate would be \$4.3 million to \$8.6 million. However, this cost was included in the original fiscal note.

In response to a previous version of this proposal, officials from the **Department of Revenue** assumed the proposal would have no fiscal impact on their organization.

Oversight assumes this proposal could have a negative impact on the General Revenue Fund if the changes allow additional filers to claim the deduction. Accordingly, Oversight will indicate an unknown negative fiscal impact for this proposal.

<u>FISCAL IMPACT - State Government</u>	FY 2013 (10 Mo.)	FY 2014	FY 2015
GENERAL REVENUE FUND			
<u>Revenue reduction</u> - deductions for job creation	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
<u>FISCAL IMPACT - Local Government</u>	FY 2013 (10 Mo.)	FY 2014	FY 2015
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

This proposal could have a direct fiscal impact to small businesses which qualify for the deduction.

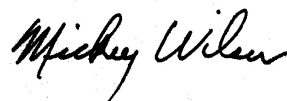
FISCAL DESCRIPTION

The proposed legislation would amend the provisions for tax deductions for new job creation.

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 Economic Development
Department of Labor and Industrial Relations
Department of Revenue



Mickey Wilson, CPA
Director
March 26, 2012