

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0301-02
Bill No.: HB 325
Subject: Business and Commerce; Taxation and Revenue - General; Business Development
Type: Original
Date: February 10, 2015

Bill Summary: This proposal would create the Bring Jobs Home Act which would authorize a tax deduction for out of state businesses which relocate to Missouri.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
General Revenue	(\$121,073 to \$721,073)	(\$47,397 to \$647,397)	(\$47,880 to \$647,880)
Total Estimated Net Effect on General Revenue	(\$121,073 to \$721,073)	(\$47,397 to \$647,397)	(\$47,880 to \$647,880)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
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 2016	FY 2017	FY 2018
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
General Revenue	1 FTE	1 FTE	1 FTE
Total Estimated Net Effect on FTE	1 FTE	1 FTE	1 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 2016	FY 2017	FY 2018
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** assume this proposal would create the Bring Jobs Home Act, which would authorize a deduction against Missouri income taxes for eligible relocation expenses. BAP officials noted the program would have a deduction cap of \$10 million annually.

BAP officials multiplied the deduction cap of \$10 million by the top individual tax rate; and estimated this proposal would reduce Total State Revenue by \$600,000. BAP officials also assume the actual cost may vary in the future due to the impact of SB 509 (2014).

Oversight notes the tax reduction for a corporation would be less than for an individual due to the lower maximum corporate tax rate, but assumes for fiscal note purposes the BAP estimate of fiscal impact is the best available estimate. Oversight will indicate a range from \$0 (no relocated businesses) to \$600,000 (relocating businesses spend at least \$10 million in eligible costs) in this fiscal note.

Officials from the **Department of Economic Development - Division of Business and Community Services (DED)** assume this proposal would create the Bring Jobs Home Act, which would allow a tax deduction for an eligible business for eligible expenses incurred in moving that business to Missouri. The program would have an annual cap of \$10 million.

DED officials deferred to the Department of Revenue for an estimate of the fiscal impact of this proposal.

DED officials assume three additional employees would be required to administer the program. The additional employees would be an Economic Development Incentive Specialist III, II, and I. Each would be responsible for reviewing and approving applications for the program to determine eligibility, establishing procedures, reviewing the tax deductions applications to make sure they meet the criteria of the program, drafting and sending the awards, and ensuring compliance with the program.

The DED response included three additional employees and the related equipment and expenses. The total cost estimate was \$204,220 for FY 2016, \$222,102 for FY 2017, and \$224,498 for FY 2017.

ASSUMPTION (continued)

Oversight assumes the DED estimate of expense and equipment cost for the new FTE could be overstated. If DED is able to use existing desks, file cabinets, chairs, etc., the estimate for equipment could be reduced by roughly \$6,000 per new employee.

Oversight notes this proposal would create a tax deduction for twenty percent of eligible expenses and there would be no need for application and award procedures. Oversight assumes only one additional DED employee would be required for the eligibility and compliance procedures. If unanticipated costs are incurred or if multiple proposals are enacted which increase the DED workload, resources could be requested through the budget process.

Oversight has, for fiscal note purposes only, changed the starting salary for the additional employee to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees and the policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. Oversight has also adjusted the DED estimate of equipment and expense in accordance with OA budget guidelines. Finally, Oversight assumes a limited number of additional employees could be accommodated in existing office space.

Officials from the **Department of Revenue (DOR)** assume that, beginning January 1, 2015, the legislation would allow a taxpayer a deduction for 20 percent of eligible expenses. The deduction amount could not exceed the taxpayer's Missouri adjusted gross income for that year.

The Department of Economic Development would verify that the number of full-time equivalents increases over the previous tax year. If the taxpayer eliminates the business within 10 years of receiving the deduction, the taxpayer would be required to repay the amount of the deduction. The legislation would allow deductions totaling up to \$10 million in a year. If the deduction claims exceed that amount, deductions would be allowed on a first-come, first-served basis.

Administrative Impact

DOR officials assume the Department would require forms changes and computer programming. In addition, Personal Tax would require two additional Revenue Processing Technicians I (Range 10, Step L) for error correction and correspondence, and Corporate Tax would require three additional Revenue Processing Technicians I (Range 10, Step L) for returns, error correction, and correspondence.

ASSUMPTION (continued)

The DOR response included five additional employees; the estimated cost for the employees, benefits, equipment and expense totaled \$204,176 for FY 2016, \$210,183 for FY 2017, and \$212,370 for FY 2018.

Oversight notes this proposal would change a limited number of computations on individual and corporate income tax returns and would not be expected to have an impact on the number of returns filed. Oversight also notes a significantly high percentage of income tax returns are prepared online, electronically, or by paid preparers. Oversight assumes there would not be a significant number of additional errors resulting from the changes in this proposal; and therefore assumes existing DOR staffing would be adequate to implement this proposal. If unanticipated additional costs are incurred or if multiple proposals are implemented that increase DOR costs or the workload for DOR employees, resources could be requested through the budget process.

IT impact

DOR officials provided an estimate of the IT cost to implement this proposal of \$123,687 based on 1,649 hours of programming to make changes to DOR systems; the DOR estimate included 503 hours for the individual tax system and 1,146 hours for the corporate tax system. In response to similar provisions in the previous session, DOR officials provided an estimate based on 1,008 hours, which included 504 hours for the personal tax system and 504 hours for the corporate tax system. At the current IT consultant contract rate of \$75 per hour, the cost for the estimated hours in the previous response would be (1,008 hours x \$75 per hour) = \$75,600.

Oversight will include \$75,600 in IT cost to implement this proposal.

ASSUMPTION (continued)

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

<u>FISCAL IMPACT - State Government</u>	FY 2016 (10 Mo.)	FY 2017	FY 2018
GENERAL REVENUE FUND			
<u>Cost - DED</u>			
Business relocation tax credits			
Section 143.1100			
Salaries	(\$25,820)	(\$30,984)	(\$31,294)
Benefits	(\$13,169)	(\$15,803)	(\$15,961)
Equipment and expense	<u>(\$6,484)</u>	<u>(\$610)</u>	<u>(\$625)</u>
Total	(\$45,473)	(\$47,397)	(\$47,880)
FTE change - DED	1 FTE	1 FTE	1 FTE
<u>Cost - DOR</u>			
Business relocation tax credits			
Section 143.1100			
IT cost	(\$75,600)	\$0	\$0
Total	(\$75,600)	\$0	\$0
<u>Revenue reduction - DOR</u>			
Business relocation tax credits			
Section 143.1100	<u>\$0 to (\$600,000)</u>	<u>\$0 to (\$600,000)</u>	<u>\$0 to (\$600,000)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	(\$121,073 to <u>\$721,073</u>)	(\$47,397 to <u>\$647,397</u>)	(\$47,880 to <u>\$647,880</u>)
Estimated Net FTE Change for the General Revenue Fund	1 FTE	1 FTE	1 FTE

<u>FISCAL IMPACT - Local Government</u>	FY 2016 (10 Mo.)	FY 2017	FY 2018
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

This proposal would allow a qualified small businesses to claim a tax deduction for 20 percent of eligible expenses of relocating that business to Missouri.

FISCAL DESCRIPTION

The proposed legislation would create the Bring Jobs Home Act, which would authorize a tax deduction against income tax, other than employee withholding tax, for up to 20% of eligible expenses associated with closing a business located outside of the state and reopening that business in Missouri. The closing could occur in a year other than the year of the relocation.

Eligible expenses must be paid or incurred under a written plan. The maximum amount of tax deductions allowed under this program could not exceed \$10 million per year, and deductions would be allowed on a first come first served filing basis.

To be eligible for the tax deduction, the number of full-time employees in Missouri for the year the deduction is claimed must exceed the number of full-time employees for the year preceding the year in which the eligible expenses were paid or incurred. Eligible expenses must be taken into account during the tax year the plan was completed and all eligible expenses have been paid or incurred or, if the taxpayer chooses, the first tax year after the tax year the expenses have been paid or incurred. A deduction would not be allowed for expenses incurred when dissolving a business in Missouri and relocating it to another state.

If a taxpayer is allowed a deduction under this program and within 10 years of receiving the deduction eliminates the business unit for which the deduction was allowed, the taxpayer would be required to repay the state an amount equal to the amount of the deduction.

The provisions of the bill would expire six years after their 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 the Secretary of State
Joint Committee on Administrative Rules
Office of Administration
 Division of Budget and Planning
Department of Economic Development
 Division of Business and Community Services
Department of Revenue



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February 10, 2015

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February 10, 2015