

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0530-01
Bill No.: HB 298
Subject: Science and Technology; Education, Higher; Taxation and Revenue - General;
 Employees - Employers
Type: Original
Date: February 4, 2015

Bill Summary: This proposal would allow an employer to retain an employee's withholding tax for five years if the employee graduated with a STEM degree from a Missouri Innovation Campus.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2016	FY 2017	FY 2018	Fully Implemented *
General Revenue*		(Up to \$6,342,446)	(Up to \$23,836,679)	(Up to \$82,137,820)
Total Estimated Net Effect on General Revenue*		(Up to \$6,342,446)	(Up to 23,836,679)	(Up to \$82,137,820)

* The cost of this proposal would increase over the first five years it becomes effective, due to additional eligible graduates hired each year. The full cost would be incurred for FY 2021 and following years.

Numbers within parentheses: () indicate costs or losses.
 This fiscal note contains 10 pages.

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

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

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)				
FUND AFFECTED	FY 2016	FY 2017	FY 2018	Fully Implemented
General Revenue	0	1 FTE	1 FTE	1 FTE
Total Estimated Net Effect on FTE	\$0	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	Fully Implemented (FY 2020)
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** assume this proposal would allow a business to retain up to 100% of withholding for employees who have graduated with a science, technology, engineering, or mathematics (STEM) bachelor's degree after April 30, 2016. Employers could retain these withholdings for up to five years.

BAP officials assume the proposal would reduce Total State Revenues and would impact the calculation required under Article X, Section 18(e) of the state constitution.

BAP officials estimated the cost if this proposal assuming all eligible higher education institutions would apply for and become an "innovation campus" and all eligible graduates would remain employed in Missouri. BAP officials also assumed income tax rates would be reduced 0.1% each year until reaching 5.5% in 2020, there would be an average inflation rate of 2.9% per year, and after the complete phase-in of the income rate decrease, the change due to inflation would be minimal.

The BAP estimates are based on the number of STEM graduates and the average starting salary by occupation for 2013, and the latest Department of Revenue individual income data available from the 2012 tax year.

ASSUMPTION (continued)

First year:

<u>Category</u>	<u>Starting Salary</u>	<u>Number of Graduates</u>	<u>Effective Tax Rates</u>	<u>Estimated Withholding</u>
Science	\$66,897	3,302	3.41%	\$7,527,779
Technology	\$84,680	859	3.72%	\$2,703,005
Engineering	\$80,268	2,058	3.72%	\$6,138,489
Math	\$85,627	394	3.72%	\$1,253,666
Grand Total	\$76,873	6,613		\$17,622,939

BAP officials assume 36% of this withholding would occur in FY 2016 and would total (\$17,622,939 x .36) = \$6,344,258. (Rounded to \$6.3 million)

Second year:

<u>Category</u>	<u>Starting Salary</u>	<u>Number of Graduates</u>	<u>Effective Tax Rates</u>	<u>Estimated Withholding</u>
Science	\$66,897	3,302	3.35%	\$14,793,257
Technology	\$84,680	859	3.65%	\$5,312,540
Engineering	\$80,268	2,058	3.65%	\$12,064,706
Math	\$85,627	394	3.65%	\$2,463,980
Grand Total	\$76,873	6,613		\$34,634,483

BAP officials assume 64% of first year withholding would occur in FY 2017 and would total (\$17,622,939 x .64) = \$11,278,681 (Rounded to \$11.3 million). Also, 36% of second year withholding would occur in FY 2017 and would total (\$34,634,483 x .36) = \$12,468,414 (Rounded to \$12.5 million). (\$11.3 million + \$12.5 million) = \$23.8 million.

ASSUMPTION (continued)

Third year:

<u>Category</u>	<u>Starting Salary</u>	<u>Number of Graduates</u>	<u>Effective Tax Rates</u>	<u>Estimated Withholding</u>
Science	\$66,897	3,302	3.29%	\$21,816,994
Technology	\$84,680	859	3.59%	\$7,833,925
Engineering	\$80,268	2,058	3.59%	\$17,790,740
Math	\$85,627	394	3.59%	\$3,633,410
Grand Total	\$76,873	6,613		\$51,075,069

BAP officials assume 64% of second year withholding would occur in FY 2018 and would total (\$34,634,483 x .64) = \$22,166,069 (Rounded to \$22.2 million). Also, 36% of third year withholding would occur in FY 2018 and would total (\$51,075,069 x .36) = \$18,387,025 (Rounded to \$18.4 million). (\$22.2 million + \$18.4 million) = \$40.6 million.

Fourth year:

<u>Category</u>	<u>Starting Salary</u>	<u>Number of Graduates</u>	<u>Effective Tax Rates</u>	<u>Estimated Withholding</u>
Science	\$66,897	3,302	3.23%	\$28,567,584
Technology	\$84,680	859	3.53%	\$10,259,032
Engineering	\$80,268	2,058	3.53%	\$23,298,126
Math	\$85,627	394	3.53%	\$4,758,186
Grand Total	\$76,873	6,613		\$66,882,928

BAP officials assume 64% of third year withholding would occur in FY 2019 and would total (\$51,075,069 x .64) = \$32,688,044 (Rounded to \$32.7 million). Also, 36% of fourth year withholding would occur in FY 2019 and would total (\$66,882,925 x .36) = \$24,077,853 (Rounded to \$24.1 million). (\$32.7 million + \$24.1 million) = \$56.8 million.

ASSUMPTION (continued)

Fifth year:

<u>Category</u>	<u>Starting Salary</u>	<u>Number of Graduates</u>	<u>Effective Tax Rates</u>	<u>Estimated Withholding</u>
Science	\$66,897	3,302	3.18%	\$35,074,904
Technology	\$84,680	859	3.46%	\$12,595,595
Engineering	\$80,268	2,058	3.46%	\$28,604,428
Math	\$85,627	394	3.46%	\$5,841,894
Grand Total	\$76,873	6,613		\$82,116,821

BAP officials assume 64% of fourth year withholding would occur in FY 2020 and would total $(\$66,882,928 \times .64) = \$42,805,074$ (Rounded to \$42.8 million). Also, 36% of fifth year withholding would occur in FY 2020 and would total $(\$82,116,821 \times .36) = \$29,562,056$ (Rounded to \$29.6 million). $(\$42.8 \text{ million} + \$29.6 \text{ million}) = \72.4 million .

Sixth and following years:

BAP officials assume the full fifth year (\$82.1 million) withholding would occur in FY 2021 and subsequent years.

Oversight assumes the BAP estimate of fiscal impact is the best available estimate; however, since the BAP estimate assumes all higher education institutions would qualify for and be recognized as an "innovation campus", Oversight assumes the impact would be an amount up to the BAP estimate. Oversight assumes the increasing annual cost would be the result of an accumulation of qualifying new hires by Missouri employers. After five years, new graduates hired would replace graduates no longer eligible for the withholding provision.

Oversight also notes the proposal would be effective for employees who graduate after April 30, 2016; the number of new hires and resulting payroll tax retention between April 30, 2016 and June 30, 2016 would likely be negligible. Oversight assumes the BAP estimates for FY 2016 and FY 2017 would likely be incurred in FY 2017 and FY 2018, respectively.

ASSUMPTION (continued)

Officials from the **Department of Revenue (DOR)** assume this proposal would allow employers to retain withholding tax creating an unknown, negative impact on Total State Revenue. DOR officials deferred to the Office of Administration - Division of Budget and Planning for additional information on the potential impact.

DOR officials assume a form would be needed that allows the employer to report retained withholdings; the Department would need to track the amount of withholdings retained.

Administrative Impact

DOR officials assume Withholding Tax would require one additional Revenue Processing Technician I (Range 10, Step L) to track the amount of withholdings retained.

The DOR estimate of cost to implement this proposal including salary, benefits, expense, and equipment totaled \$40,836 for FY 2016, \$42,037 for FY 2017, and \$42,474 for FY 2018.

Oversight assumes the DOR estimate of expense and equipment cost for the new FTE could be overstated. If DOR 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 has, for fiscal note purposes only, changed the starting salary for the additional employees 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 policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. Oversight has also adjusted the DOR 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.

Oversight also assumes the additional staff would be needed beginning in July 1, 2017 (FY 2017).

DOR officials did not include an estimate for IT costs, and **Oversight** assumes the IT cost is negligible and could be absorbed with existing resources.

ASSUMPTION (continued)

Officials from the **Department of Higher Education (DHE)** assume this proposal would allow an employer who hires an individual who graduated from an innovation campus with a STEM degree to retain up to 100 percent of that individual's withholding tax.

The Department would be in charge of reviewing applications to retain an employee's withholding tax. This would require the promulgation of rules to determine how an applicant would be selected, which could be handled with existing staff, and the addition of 1/3 FTE to handle the continuous influx of applications for the new program.

The DHE response included one 33% FTE Research Associate I; the estimated cost including salary, benefits, equipment, and expense totaled \$13,965 for FY 2016, \$16,926 for FY 2017, and \$17,094 for FY 2018.

Oversight assumes these activities could be absorbed by DHE with existing resources. If multiple bills pass which require additional staffing and duties at substantial costs, DHE could request funding through the budget process.

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 greater than 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 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	Fully Implemented *
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GENERAL REVENUE

Cost - Department of Revenue

Salary	\$0	(\$23,640)	(\$23,876)	(\$24,600)
Benefits	\$0	(\$12,058)	(\$12,178)	(\$12,547)
Equipment and expense	<u>\$0</u>	<u>(\$6,748)</u>	<u>(\$625)</u>	<u>(\$673)</u>
Total cost	\$0	(\$42,446)	(\$36,679)	(\$37,820)
Estimated FTE Change - DOR	0 FTE	1 FTE	1 FTE	1 FTE

<u>Revenue reduction</u>		(Up to	(Up to	(Up to
Payroll tax retained	<u>\$0</u>	<u>\$6,300,000)</u>	<u>\$23,800,000)</u>	<u>\$82,100,000)</u>

ESTIMATED NET EFFECT TO GENERAL REVENUE*	\$0	(Up to \$6,342,446)	(Up to \$23,836,679)	(Up to \$82,137,820)
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* The cost of this proposal would increase over the first five years it becomes effective, due to additional eligible graduates hired each year. The full cost would be incurred for FY 2021 and following years.

Estimated Net FTE Change for General Revenue Fund	0 FTE	1 FTE	1 FTE	1 FTE
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<u>FISCAL IMPACT - Local Government</u>	FY 2016 (10 Mo.)	FY 2017	FY 2018	Fully Implemented
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

This proposal would have a direct impact to a small business that hired a qualifying employee.

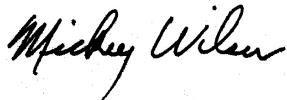
FISCAL DESCRIPTION

This proposal would authorize an employer to retain an employee's withholding tax for five years if the employee graduated with a STEM degree from a Missouri Innovation Campus.

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 Higher Education
Department of Revenue



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Director
February 4, 2015

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February 4, 2015