

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1125-01
Bill No.: HB 677
Subject: Boards, Commissions, Committees, Councils; Taxation and Revenue - General
Type: Original
Date: February 10, 2015

Bill Summary: This proposal modifies provisions relating to the Small Business Regulatory Fairness Board and authorizes a tax credit for certain small businesses.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
General Revenue	Up to (\$1,062,937)	\$0	\$0
Total Estimated Net Effect on General Revenue	Up to (\$1,062,937)	\$0	\$0

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 6 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
Total Estimated Net Effect on FTE	0	0	0

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

Oversight was unable to receive some of the agency responses in a timely manner due to the short fiscal note request time. Oversight has presented this fiscal note on the best current information that we have or on prior year information regarding a similar bill. Upon the receipt of agency responses, Oversight will review to determine if an updated fiscal note should be prepared and seek the necessary approval of the chairperson of the Joint Committee on Legislative Research to publish a new fiscal note.

Officials at the **Department of Revenue (DOR)** assume §135.1905 provides qualified small businesses a tax credit of \$250 per employee or \$25,000 per qualified business for the cost of regulatory compliance. The credit is based on a first-come, first-served basis and the bill caps the credit at one million dollars.

Administrative Impact:

Personal Tax requires one (1) Revenue Processing Technician I for every 4,000 credits claimed.

Corporate Tax requires One (1) Revenue Processing Technician I per 4,000 tax credits redeemed with CISCO phones and license.

This will require 335.88 hours of programming to the Individual Tax system at \$75 per hour for a total cost of \$25,191.

This will also require 503.28 hours of programming to the Corporate Income Tax system at \$75 per hour for a total cost of \$37,746.

Officials at the **Department of Economic Development (DED)** assume §135.1905 creates a tax credit for the Small Business Regulatory Fairness Board in the amount of \$1 million. The Small Business Regulatory Finance Board (SBRFB) may issue a one-time tax credit to qualified small business owners in an amount equal to the demonstrated cost of regulatory compliance. The credit cannot exceed \$250 per employee of the qualified small business or \$25,000 per business. The tax credit is non refundable but may be sold or transferred. It is unclear whether the cap of \$1 million in total tax credits is an annual or aggregate cap.

Currently, DED provides staff to assist the SBRFB and as a result of this proposal 2 additional FTE will be required. An Economic Development Specialist II and an Accounting Specialist I will be needed to create guidelines, review applications, and conduct compliance.

ASSUMPTION (continued)

Oversight assumes that this proposal does not specify if the \$1,000,000 is an annual or aggregate cap. Therefore, Oversight assumes the \$1,000,000 is an aggregate cap.

Oversight assumes that due to the number of businesses that would qualify for this tax credit, the \$1,000,000 cap would be reached within the first year of implementation. Oversight will show the fiscal impact up to \$1,000,000 cap being reached in the first year of implementation.

Oversight assumes that only 40 small businesses qualifying for the maximum amount of \$25,000 would exhaust the \$1,000,000 cap. Therefore, Oversight assumes that due to the limited number of businesses that would qualify for this tax credit, DOR and DED can absorb FTE costs. If multiple bills pass which require additional staffing at substantial costs, DOR and DED could request funding through the appropriation process.

Officials at the **Office of Administration's Division of Budget and Planning (BAP)** assume this proposal will not result in any additional costs or savings for BAP.

This proposal would create a qualified small business tax credit that may be issued to small businesses as a one-time credit against their tax liability in the amount equal to their cost of compliance with regulations. The tax credits are capped at \$1,000,000 annually, and issued on a first-come, first-serve basis. This proposal could therefore reduce General and Total State Revenues by this amount annually.

<u>FISCAL IMPACT - State Government</u>	FY 2016 (10 Mo.)	FY 2017	FY 2018
GENERAL REVENUE			
<u>Revenue Reduction</u> - Small Business Regulatory Fairness Board tax credit	Up to (\$1,000,000)	\$0	\$0
<u>Cost</u> - Dept of Revenue - computer programming (one-time)	(\$62,937)	<u>\$0</u>	<u>\$0</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE	Up to <u>(\$1,062,937)</u>	<u>\$0</u>	<u>\$0</u>

<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

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

This bill changes the laws regarding the Small Business Regulatory Fairness Board and authorizes a one-time income tax credit for certain small businesses that the board determines have been unfairly burdened. The board can issue a tax credit equal to the demonstrated cost of regulatory compliance up to \$250 per employee but not more than \$25,000 per business. The tax credit cannot be refunded, carried over or back, transferred, sold, or assigned. The total amount of tax credits authorized cannot exceed \$1 million and must be issued on a first-come, first-served basis.

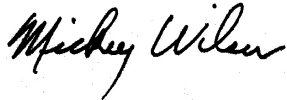
The bill changes the membership of the nine-member board to: three members appointed by the Speaker of the House of Representatives, three members appointed by the President Pro Tem of the Senate, and three members appointed by the Governor. The board must also review petitions filed by small businesses; authorize and issue the tax credits; and submit an annual report to the Governor and General Assembly detailing the number of petitions received, number and amount of credits issued, comments from small businesses, responses from state agencies, a summary of public testimony on rules brought before the board for consideration, and any other additional information the board thinks should be included.

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

L.R. No. 1125-01
Bill No. HB 677
Page 6 of 6
February 10, 2015

SOURCES OF INFORMATION

Department of Revenue
Office of Administration's Division of Budget and Planning
Department of Economic Development



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February 10, 2015

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February 10, 2015