

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1988-01
Bill No.: HB 862
Subject: Business and Commerce; Revenue Department; Tax Credits; Taxation and Revenue - Income
Type: Original
Date: April 7, 2015

Bill Summary: This proposal authorizes an income tax credit for certain small businesses who hire a person who is disabled or who was recently discharged from a correctional facility.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
General Revenue	(\$22,932)	(\$246,928 to \$10,246,928)	(\$208,925 to \$10,208,925)
Total Estimated Net Effect on General Revenue	(\$22,932)	(\$246,928 to \$10,246,928)	(\$208,925 to \$10,208,925)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Total Estimated Net Effect on Other 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
General Revenue	0 FTE	5 FTE	5 FTE
Total Estimated Net Effect on FTE	0 FTE	5 FTE	5 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

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 Elementary and Secondary Education** assumes tax subsidies reduce the state's tax revenues and decrease the amount of money available for public schools and all public school students.

Officials at the **Joint Committee on Administrative Rules** and the **Department of Corrections** each assume no fiscal impact from this proposal to their respective organizations.

Officials at the **Office of Administration's Division of Budget and Planning (BAP)** assume this proposal provides a process whereby a qualifying taxpayer may receive a \$500 tax credit for hiring a disabled employee or person discharged from a state or federal correction facility within 12 months preceding the hiring. The business would be able to claim this tax credit for each person hired for three years. There is a \$10,000,000 aggregate annual cap on the tax credit. Therefore, BAP estimates this proposal could reduce general and total state revenues up to this amount annually.

In response to similar legislation filed last year (HB 1563), officials at the **Department of Revenue (DOR)** assumed this proposal required computer programming changes to various tax systems. The IT portion of this fiscal impact was estimated at \$22,932 for 840 FTE hours.

DOR's Personal Tax Division required the need for one Revenue Processing Technician I for additional tax credits claimed. DOR's Corporate Tax Division needed one Revenue Processing Technician I for additional tax credit redemptions. DOR's Collections and Tax Assistance Division needed two Tax Collection Technicians I for additional contacts on the delinquent and non-delinquent tax lines and one Revenue Processing Technician I for additional contacts to the tax assist offices if the credit claims are more than the \$10 million cap.

Officials from the **Office of the Secretary of State (SOS)** state many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and

ASSUMPTION (continued)

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 \$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, 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 the 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 assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process.

Oversight assumes this creates a new tax credit beginning January 1, 2016, with a \$10 million annual cap. A business would not be able to claim this credit on their taxes until FY 2017. Therefore, Oversight will show the amount of loss revenue to the State in FY 2017 and FY 2018 as \$0 (no credits issued) to the annual cap.

<u>FISCAL IMPACT - State Government</u>	FY 2016 (10 Mo.)	FY 2017	FY 2018
GENERAL REVENUE			
<u>Revenue Reduction</u> - creation of tax credit for hiring a disabled person or person from a correctional facility	\$0	\$0 to (\$10,000,000)	\$0 to (\$10,000,000)
<u>Cost - Department of Revenue</u>			
Personal Service	\$0	(\$133,239)	(\$134,572)
Fringe Benefits	\$0	(\$67,959)	(\$68,638)
Equipment and Expenses	\$0	(\$45,730)	(\$5,713)
Computer Programming	<u>(\$22,932)</u>	<u>\$0</u>	<u>\$0</u>
<u>Total Costs - DOR</u>	<u>\$0</u>	<u>(\$246,928)</u>	<u>(\$208,925)</u>
FTE Change - DOR	0 FTE	5 FTE	5 FTE
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>(\$22,932)</u>	<u>(\$246,928) to (\$10,246,928)</u>	<u>(\$208,925) to (\$10,208,925)</u>
Estimated Net FTE Change on General Revenue	0 FTE	5 FTE	5 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

Small businesses that qualify for the tax credit could be positively impacted.

FISCAL DESCRIPTION

Beginning January 1, 2016, this bill authorizes an income tax credit of \$500 for each person a small business hires who is disabled or who has been discharged from a state or federal correctional facility within the 12 months immediately preceding the hiring. The disabled individual, as defined in the bill, must be employed for at least one year with an average of 25 hours per week; and an individual discharged from a correctional facility must work at least one

FISCAL DESCRIPTION (continued)

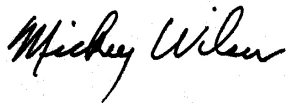
year for an average of 40 hours per week before the small business will be eligible for the credit. The small business will be eligible for the credit for the first three years the individual recently discharged from a correctional facility is employed and for each year the disabled person is employed. The credit will be issued on a first-come, first-served basis and is not refundable or transferable but can be carried forward for three subsequent taxable years. No more than \$10 million of these credits can be issued in any fiscal year.

The provisions of the bill will expire December 31 six years after the 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 Administration's Division of Budget and Planning
Joint Committee on Administrative Rules
Department of Elementary and Secondary Education
Department of Corrections
Office of the Secretary of State
Department of Revenue



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