FISCAL NOTE

Bill #: SB366 **Title:** Tax credit for job creation

Primary Sponsor: Debbie Shea **Status:** Introduced

Sponsor signature Date Chuck Swysgood, Budget Director Date

Fiscal Summary

	FY2002 Difference	FY2003 Difference
Expenditures:		
General Fund	$20,241	$0
Revenue:		
General Fund	$0	$(8,452,500)
Net Impact on General Fund Balance:	**$(20,241)**	**$(8,452,500)**

Yes	No		Yes	No	
	X	Significant Local Gov. Impact		X	Technical Concerns
	X	Included in the Executive Budget	X		Significant Long-Term Impacts
	X	Dedicated Revenue Form Attached		X	Family Impact Form Attached

Fiscal Analysis

ASSUMPTIONS:

1. This proposal applies to tax years beginning after December 31, 2001 (TY2002), but applies to jobs created after December 31, 2000 (Section 1(2)(a)). There is no revenue impact from this proposal in fiscal year 2002.
2. This proposal provides for a tax credit for qualifying jobs that is equal to 10% of "the state taxable income paid by the taxpayer during the tax year for qualifying jobs". For purposes of this fiscal note, state taxable income is assumed to mean taxable wages as reported on form W-2 for federal income tax purposes, but see the technical notes at the end of this fiscal note.
3. The credit provided for in this bill applies only to jobs that pay between $17,000 and $50,000 in "state taxable income".

4. A total of 8,500 new jobs will be created each year over the period 2001 through 2006 (DOLI). Of these jobs, a total of 3,675 will meet the income requirement for a qualifying job (DOR). These jobs will be eligible for an average credit of $2,300. This results in an annual credit impact of $8,452,500.
5. The impact of the credit in assumption 4 will be reduced significantly because many employers will not have sufficient taxable income (as taxable income is defined for tax liability purposes) to fully utilize the credit. Also, the utilization rate among employers will be substantially less than 100%. These factors together reduce the credit impact in assumption 4 by half.
6. In the first year of the proposal, the credit will be allowed for all new jobs created in calendar year 2001 and 2002, per assumption 1. This will act to double the impact of the credit for fiscal year 2003, relative to all succeeding fiscal years. The credit impact in fiscal 2003 under these assumptions is $8,452,500.
7. The Department of Revenue will incur additional administrative expense of $20,241 to implement the provisions of this bill. These expenses cover costs associated with adding a new line to income tax forms, and data processing changes needed to capture the information pertaining to the credit.

FISCAL IMPACT:

	FY2002 Difference	FY2003 Difference
Expenditures:		
Operating Expenses	$20,241	$0
Funding:		
General Fund (01)	$20,241	$0
Revenues:		
General Fund (01)	$0	$(8,452,500)
Net Impact to Fund Balance (Revenue minus Expenditure):		
General Fund (01)	$(20,241)	$(8,452,500)

LONG-RANGE IMPACTS:
The revenue impact in fiscal years after 2003 would be reduced to $(4,226,250).

TECHNICAL NOTES:
1. The bill provides that the credit is to apply to “state taxable income” paid by the taxpayer during the tax year. It is not clear what this term refers to. Does this refer to gross wages? Does this refer to gross wages net of pre-tax deductions from wages? Does this refer to taxable income as taxable income is defined as the base for income tax purposes (i.e., income net of all deductions and personal exemptions)?
2. The bill provides that the taxpayer must reduce deductions for wages that otherwise would be taken by the amount of any credit granted. This in essence provides the taxpayer with a double deduction for wages paid as the credit does not offset the deduction by more than 6.75% for corporate taxpayers, and by a similar amount for individual income taxpayers. Further, the bill makes this offset explicit for corporate taxpayers only; a similar provisions should be provided for individual income taxpayers.