



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2025 Biennium

Bill information:

SB0259 - Small business tax credit for paying a livable wage (Dunwell, Mary Ann)

Status: As Introduced

- | | | |
|---|---|--|
| <input type="checkbox"/> Significant Local Gov Impact | <input checked="" type="checkbox"/> Needs to be included in HB 2 | <input type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input checked="" type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

FISCAL SUMMARY

	<u>FY 2024</u> <u>Difference</u>	<u>FY 2025</u> <u>Difference</u>	<u>FY 2026</u> <u>Difference</u>	<u>FY 2027</u> <u>Difference</u>
Expenditures:				
General Fund	\$0	\$94,651	\$93,013	\$94,253
Revenue:				
General Fund	\$0	(\$4,463,000)	(\$5,063,000)	(\$5,700,000)
Net Impact-General Fund Balance:	\$0	(\$4,557,651)	(\$5,156,013)	(\$5,794,253)

Description of fiscal impact: SB 259 creates a nonrefundable tax credit for small businesses who pay more than \$15 per hour to employees working in typically low paying occupations. This credit would decrease income tax liability and general fund revenues by an estimated \$4,463,000 in FY 2025, \$5,063,000 in FY 2026, and \$5,700,000 in FY 2027.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

1. SB 259 creates a nonrefundable tax credit for small businesses who pay employees a living wage. The credit would be \$1,000 for each employee being paid more than \$15 an hour in an occupation where the statewide average wage is less than \$15 per hour.
2. To be eligible for the credit under the definition of a small business, the employer may not employ more than an average of 30 employees during the year the credit is claimed. Each employee the credit is claimed for must be employed for at least 60 days out of the year and the credit amount claimed for the employee cannot exceed the total compensation paid to the employee.
3. This bill applies to tax years beginning after December 31, 2023, which will be TY 2024 and impact income tax collections beginning in FY 2025.

4. The Occupational Employment and Wage Statistics (OEWS) Survey from May 2021 was used to estimate the number of potentially qualifying employees making more than \$15 per hour in occupations with an average wage less than \$15 per hour.
5. In the OEWS Survey, there were a total of just over 100,000 employees in occupations with an average wage less than \$15 per hour, with an estimated 17,000 of those earning a wage greater than \$15 per hour based on the median, 75th percentile and 90th percentile wages for each occupation. Based on employment data provided by the Department of Labor and Industry, it is estimated that 50% of these employees would meet the small business requirement (less than 30 employees), which results in approximately 8,500 qualifying employees.
6. The utilization rate for this credit is assumed to be 70% in TY 2024 and increase to 75% in TY 2025 and 80% in TY 2026 as awareness and usage of the credit increases. The number of qualifying employees is also assumed to increase to 9,000 in TY 2025 and 9,500 in TY 2026 as natural wage growth increases the number of employees making more than \$15 per hour.
7. This credit would be nonrefundable and not able to be carried forward at all. Therefore, the estimated revenue impact is only assumed to be 75% of the total credits claimed each year, because some employers who claim the credit may have a tax liability less than the credit they qualify for.
8. The following table shows the calculation process from the number of qualifying employees to the total tax liability/revenue impact for each year.

Table 1. Calculating Tax Revenue Impact	TY 2024/FY 2025	TY 2025/FY 2026	TY 2026/FY 2027
Qualifying Employees	8,500	9,000	9,500
Utilization Rate	70%	75%	80%
Credit per Employee	\$1,000	\$1,000	\$1,000
Estimated Credits Claimed by Employers	\$5,950,000	\$6,750,000	\$7,600,000
Nonrefundable tax Liability Impact	75%	75%	75%
Decrease to Tax Liability/Revenue	\$4,463,000	\$5,063,000	\$5,700,000

9. This bill is estimated to decrease income tax collections and resulting general fund revenue by \$4,463,000 in FY 2025, \$5,063,000 in FY 2026, and \$5,700,000 in FY 2027.

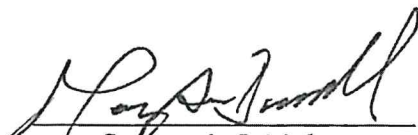
DOR Administrative Costs

10. Administering this credit would require significant rule making and audit work by the Department of Revenue. This would require an additional 1.00 FTE beginning in FY 2025. The cost of this compliance specialist would be \$94,651 in FY 2025, \$93,013 in FY 2026, and \$94,253 in FY 2027.

<u>Fiscal Impact:</u>	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>
	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>
Department of Revenue				
FTE	0.00	1.00	1.00	1.00
<u>Expenditures:</u>				
Personal Services	\$0	\$83,096	\$84,153	\$85,225
Operating Expenses	\$0	\$11,555	\$8,860	\$9,028
TOTAL Expenditures	\$0	\$94,651	\$93,013	\$94,253
<u>Funding of Expenditures:</u>				
General Fund (01)	\$0	\$94,651	\$93,013	\$94,253
TOTAL Funding of Exp.	\$0	\$94,651	\$93,013	\$94,253
<u>Revenues:</u>				
General Fund (01)	\$0	(\$4,463,000)	(\$5,063,000)	(\$5,700,000)
TOTAL Revenues	\$0	(\$4,463,000)	(\$5,063,000)	(\$5,700,000)
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	\$0	(\$4,557,651)	(\$5,156,013)	(\$5,794,253)

Long-Term Impacts:

1. The fixed wage threshold would likely allow more employees to qualify for the credit with normal wage progression. There is no provision for adjusting the threshold for inflation. At some point, the eligible occupations listed will have average wages greater than \$15 per hour.
2. The provision for adjusting eligible occupational categories is unclear with respect to excluding occupational categories when wages in an occupational category exceed the threshold in the bill. The department interprets Section 1, subsections (4) and 5)(a) of HB 259 such that DOR does not have the authority to exclude an occupational category when average wages in the occupational category exceed the bill's wage threshold. This will lead to a compounding increase in the number of potential credits. Credits use would grow but would be increasingly constrained by the tax liability of qualified firms.


 Sponsor's Initials

2-13-23
 Date


 Budget Director's Initials

2-10-23
 Date