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HOUSE OF REPRESENTATIVES
COMMITTEE ON
BUSINESS DEVELOPMENT AND INTERNATIONAL TRADE
BILL ANALYSIS & ECONOMIC IMPACT STATEMENT

BILL #: CS/HB 531

RELATING TO: Small Business Employment Incentives

SPONSOR(S): Representative Wallace

STATUTE(S) AFFECTED: New language

COMPANION BILL(S): SB 808 (identical)

ORIGINATING COMMITTEE(S)/COMMITTEE(S) OF REFERENCE:
(1) BUSINESS DEVELOPMENT AND INTERNATIONAL TRADE YEAS 6 NAYS 3
(2) FINANCE AND TAXATION
(3) GENERAL GOVERNMENT APPROPRIATIONS
(4)
(5)

I. SUMMARY:

The bill provides that any small business meeting specified criteria may claim a single $1,000 credit against sales and uses taxes or corporate income taxes for creating a full-time position, provided the position pays at least $7.61 per hour for at least 12 consecutive months.

The Department of Revenue will have to enact rules to administer the provisions of this bill. The Revenue Estimating Conference has not reviewed this bill yet. The bill limits the amount of credits that may be given to 55,000 over a three year period.

The maximum negative fiscal impact this bill will have on state and local revenues is ($55 million), commencing in fiscal year 1998/99 plus costs of administering this bill -- ($687,770 in FY 1997/98) and ($217, 548 in FY 1998/99). To the extent the bill induces additional economic activity, the bill may have a positive impact on state and local revenues.

II. SUBSTANTIVE ANALYSIS:

A. PRESENT SITUATION:

As part of its economic and community development efforts, Florida has in place certain programs that provide tax relief based upon the creation of jobs in the state. Examples of such initiatives include:

Qualified Target Industry Tax Refund Program, under which new or expanding businesses in certain key industrial sectors or corporate headquarters may be eligible to be approved for tax refunds of up to $5,000 per job created. (The refund may be increased to $7,500 in an enterprise zone.) The program emphasizes the creation of jobs paying at least 115 percent of the state or local average wages. To be eligible, a new business must create at least 10 full-time jobs, and an expansion of an existing business must result in a 10 percent increase in employment. Approved applicants may receive refunds based on the payment of sales and use taxes, corporate income taxes, intangible personal property taxes, emergency excise taxes, excise taxes on documents, ad valorem taxes paid, and insurance premium taxes. *See* s. 288.106, F.S., 1996 Supplement.

Qualified Defense Contractor Program, under which tax refunds may be provided up to $5,000 per job created or saved in Florida through the conversion of defense jobs to civilian production, the acquisition of a new defense contract, or the consolidation of a defense contract. There are no minimum job creation levels for the program, except that a contract consolidation must result in at least a 25 percent increase in Florida employment or a minimum of 80 jobs. The program emphasizes the creation or retention of jobs paying at least 115 percent of the average area wages. Approved applicants may receive refunds based on the payment of sales and use taxes, corporate income taxes, intangible personal property taxes, emergency excise taxes, excise taxes on documents, and ad valorem taxes paid. See 288.1045, F.S., 1996 Supplement.

Enterprise Zone Program, under which businesses are eligible for tax exemptions and credits for investing in certain geographically defined areas that are designated by the state based upon economic distress. Among the tax incentives provided under the program are credits against sales and uses taxes or against corporate income taxes for job creation in an enterprise zone. Generally, the business must be located in the enterprise zone, and the new employee must be a resident of the zone. The credit amounts are tiered based upon the annual salary of the new employee and based upon whether the new employee is a participant in the WAGES program. See ss. 212.096 and 220.181, F.S., 1996 Supplement.

Section 288.703, F.S., 1996 Supplement, defines “small business” to mean an independently owned and operated business concern that employs 100 or fewer permanent full-time employees and that, together with affiliates, has a net worth not exceeding $3 million and an average net income for the preceding two years not exceeding $2 million. Enterprise Florida, Inc., reported that in 1995 approximately 367,933 of 375,451 Florida private businesses were small, using a definition based on the employment of 100 or fewer employees.

The minimum wage, which is established under federal law, is $4.75 per hour.

B. EFFECT OF PROPOSED CHANGES:

This bill provides that any small business meeting the definition contained in s. 288.703, F.S., excluding a franchise business, shall receive a $1,000 tax credit voucher to apply against sales and use tax liability or corporate income tax liability for creating a full-time position. For the business to qualify for the tax credit:

* the business must employ 100 or fewer permanent full-time employees and have a net worth not exceeding $3 million and an average net income for the preceding two years not exceeding $2 million;

* the position must be continuously filled for at least 12 consecutive months by the same employee;

* all existing positions must be maintained;

* the position must pay a salary of at least $7.61 per hour; and

* the employee must perform duties related to the operations of the business on a regular full-time basis for an average of at least 36 hours per week each month throughout the year.

Under the bill, each eligible business shall qualify for one credit only and may apply for the credit by submitting an application and affidavit verifying employment and salary to the Department of Revenue. The business may use the voucher against existing tax liabilities and, if it does not fully use the credit in the first taxable year, may carry over the credit against future tax liabilities for up to five years or until the amount is fully used, whichever occurs first.

The bill specifies that the employment-incentive shall be available to eligible small businesses for three years after the July 1, 1997, effective date or until the department has issued 55,000 tax credit vouchers, whichever occurs first.

C. APPLICATION OF PRINCIPLES:

1. <u>Less Government:</u>

a. Does the bill create, increase or reduce, either directly or indirectly:

(1) any authority to make rules or adjudicate disputes?

Yes. The Department of Revenue will have to adopt rules and forms to implement this bill.

(2) any new responsibilities, obligations or work for other governmental or private organizations or individuals?

Yes, the Department of Revenue will have to administer the provisions, and audit employers that receive the credits authorized in this bill to ensure they were eligible for such credits.

(3) any entitlement to a government service or benefit?

Yes, the bill provides up to 55,000 small businesses a tax credit of $1,000.

b. If an agency or program is eliminated or reduced:

N/A

(1) what responsibilities, costs and powers are passed on to another program, agency, level of government, or private entity?

N/A

(2) what is the cost of such responsibility at the new level/agency?

N/A

(3) how is the new agency accountable to the people governed?

N/A

2. <u>Lower Taxes:</u>

a. Does the bill increase anyone's taxes?

No.

b. Does the bill require or authorize an increase in any fees?

No.

c. Does the bill reduce total taxes, both rates and revenues?

The bill will reduce taxes for those small businesses which qualify and take advantage of the program. The maximum impact this bill will have is $55 million, commencing in fiscal year 1998/99.

d. Does the bill reduce total fees, both rates and revenues?

No.

e. Does the bill authorize any fee or tax increase by any local government?

No.

3. Personal Responsibility:

a. Does the bill reduce or eliminate an entitlement to government services or subsidy?

No.

b. Do the beneficiaries of the legislation directly pay any portion of the cost of implementation and operation?

No.

4. Individual Freedom:

a. Does the bill increase the allowable options of individuals or private organizations/associations to conduct their own affairs?

N/A.

b. Does the bill prohibit, or create new government interference with, any presently lawful activity?

N/A.

5. Family Empowerment:

a. If the bill purports to provide services to families or children:

(1) Who evaluates the family's needs?

N/A.

(2) Who makes the decisions?

N/A.

(3) Are private alternatives permitted?

N/A.

(4) Are families required to participate in a program?

N/A.

(5) Are families penalized for not participating in a program?

N/A.

b. Does the bill directly affect the legal rights and obligations between family members?

N/A.

c. If the bill creates or changes a program providing services to families or children, in which of the following does the bill vest control of the program, either through direct participation or appointment authority:

N/A.

(1) parents and guardians?

(2) service providers?

(3) government employees/agencies?

D. SECTION-BY-SECTION ANALYSIS:

Section 1 creates a small business tax credit voucher to apply against sales and use tax liability or corporate income tax liability for creating a full-time position if the business meets specific qualifications. See Effect of Proposed Changes.

Section 2 Provides that this act shall take effect July 1, 1997.

III. <u>FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT</u>:

A. FISCAL IMPACT ON STATE AGENCIES/STATE FUNDS:

1. <u>Non-recurring Effects</u>:

The Department of Revenue will incur minimal costs associated with developing rules and forms to implement this bill.

2. Recurring Effects:

This bill has not been reviewed by the Revenue Estimating Conference. The revenue reduction resulting from 55,000 tax credit vouchers of $1,000 each would be $55 million. Because a company could not qualify for a credit until the employee had worked a full year, the impact would not be felt until fiscal year 1998-99.

The Department of Revenue states that they will incur the following cost in administering this bill:

FY 1997/98	**FY 1998/99**
$687,770	$217,548
(7) FTE	(7) FTE

3. Long Run Effects Other Than Normal Growth:

Indeterminate at this time.

4. Total Revenues and Expenditures:

See A2.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS AS A WHOLE:

1. Non-recurring Effects:

None.

2. Recurring Effects:

The Revenue Estimating Conference has not reviewed this bill. To the extent that this bill reduces the amount of sales tax received by the state, the amount of sales tax revenue distributed to local governments will receive a corresponding reduction.

3. Long Run Effects Other Than Normal Growth:

Indeterminate at this time.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

1. Direct Private Sector Costs:

None.

2. Direct Private Sector Benefits:

   An eligible small business will be able to receive a one-time, $1,000 voucher against sales and use taxes or corporate income taxes based upon the creation of a full-time position.

3. Effects on Competition, Private Enterprise and Employment Markets:

   To the extent this bill induces additional economic activity, the bill may have a positive impact on employment markets.

D. FISCAL COMMENTS:

IV. CONSEQUENCES OF ARTICLE VII, SECTION 18 OF THE FLORIDA CONSTITUTION:

A. APPLICABILITY OF THE MANDATES PROVISION:

This bill does not require counties or municipalities to spend funds or to take an action requiring the expenditure of funds.

B. REDUCTION OF REVENUE RAISING AUTHORITY:

This bill does not reduce the revenue raising authority of counties or municipalities.

C. REDUCTION OF STATE TAX SHARED WITH COUNTIES AND MUNICIPALITIES:

While this bill will reduce the amount of Local Government Half Cent Sales Tax shared with municipalities and counties, it does not reduce the percentage of a state tax shared with municipalities and counties. Therefore, Article VII, Section 18(b), Florida Constitution does not apply.

V. COMMENTS:

VI. AMENDMENTS OR COMMITTEE SUBSTITUTE CHANGES:

On March 26, 1997, the Business Development and International Trade Committee adopted 3 amendments. The first amendment defined franchise as it is defined in section 817.416(1), F.S.

The second amendment was technical in nature, pertaining to the change mentioned above.

The third amendment removed from the bill “new” in regards to the position needed for the tax credit. A position may be filled by an existing employee, as long as the position is new.

VII. SIGNATURES:

COMMITTEE ON BUSINESS DEVELOPMENT AND INTERNATIONAL TRADE:

Prepared by:	Legislative Research Director:
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