# F I S C A L   I M P A C T   R E P O R T

**SPONSOR** Snyder **DATE TYPED** 1/31/05 **HB**

**SHORT TITLE** Business Services Tax Credit Act **SB** 151

**ANALYST** Taylor

## REVENUE

| Estimated Revenue | | Subsequent Years Impact | Recurring or Non-Rec | Fund Affected |
|---|---|---|---|---|
| FY05 | FY06 | | | |
| | (14,900) | See fiscal impact section | Recurring | General Fund |
| | (2,200) | See fiscal impact section | Recurring | Local Funds |

(Parenthesis ( ) Indicate Revenue Decreases)

## SOURCES OF INFORMATION

LFC Files
Taxation and Revenue Department (TRD)
Economic Development Department (EDD)

## SUMMARY

Senate Bill 151 enacts the "Business Services Tax Credit Act". The stated purpose of the act is to reduce the tax burden on businesses that result from multiple impositions of transactional taxes upon the sale or use of services purchased by businesses.

The act defines qualified expenditures as those defined under section 162 of the Internal Revenue Service Code that are subject to the gross receipts tax, with certain, specified exceptions. It also establishes the amount of the credit to be equal to qualified expenditures multiplied by a specified rate that increases over time. For FY06, the rate is 0.5 percent; for FY07, the rate is 1.0 percent; for FY08, the rate is 1.5 percent; for FY09, the rate is 2.0 percent; for FY10, the rate is 2.5 percent. However, the bill also provides for a lower rate that is equal to half the rates reported here, for hospitals which are currently allowed to claim a deduction equal to half their receipts.

The credit could be applied against gross receipts, compensating and withholding taxes and unused amounts could be carried forward to future years.

The bill carries a July 1, 2005 effective date.

## FISCAL IMPLICATIONS

TRD estimates that the base eligible for the credit is $3.48 billion. The fiscal impact in FY06 is equal to this base multiplied by 0.5 percent, or roughly $17. Impacts grow in the later year as the rates and base increase. The base is estimated to grow by 5 percent per year.
TRD notes that local impacts are the result of the 1.225% of the 5% GRT that is shared with municipal governments and the 20% of the compensating tax that is shared through the small cities and small counties revenue sharing programs.

TRD's table estimating impacts through FY 2010 is shown here:

| Estimated Revenue | | | | | Recurring or Non-Rec | Fund Affected |
|---|---|---|---|---|---|---|
| FY 2006 | FY 2007 | FY 2008 | FY 2009 | FY 2010 | | |
| (14,900) | (31,300) | (49,200) | (68,600) | (89,500) | Recurring | General Fund |
| (2,200) | (4,700) | (7,400) | (10,300) | (13,400) | Recurring | Local Governments |

## ADMINISTRATIVE IMPLICATIONS

TRD reports the following administrative issue:

> The proposal would force major changes in the Combined Revenue System ("CRS") through which the Department processes approximately $3.5 billion of state and local revenue annually. Because of the large number of taxpayers affected, the credits could not be processed manually, as is done for the other credits under present law. Automated processing will require forms changes and changes in returns processing that would be expensive and time-consuming, resulting in slower revenue processing. Automated processing also means that the only enforcement tools available to insure accuracy of reporting will be audits. Audit frequency is limited, so inaccuracies and non-compliance will be more common than with other tax credits.
>
> In addition to non-recurring systems re-design costs of $200 thousand, as much as 4 FTE worth of increased workload will be imposed on the revenue processing function.

BT/yr