

CORRECTED FISCAL NOTE
SB 3463 – HB 3634

May 8, 2006

SUMMARY OF BILL: Authorizes a job tax credit of \$4,500 for each net new full-time job created when (1) a capital investment in excess of \$100,000 has been made in a business enterprise, (2) the capital investment is made over a period not exceeding three years from the filing of the first business plan relating to the business enterprise, and (3) the capital investment creates a corresponding increase of one net new full-time job with “full progression” or “top out” wages equal to or greater than 150% of Tennessee’s average industrial wage for all manufacturing sectors. Requires any job tax credits authorized by this act apply only to businesses that have made capital investments of at least \$100.0 million during the maximum three-year period.

ESTIMATED FISCAL IMPACT:

On March 13, 2006, we issued a fiscal note indicating the following fiscal impact:

Increase State Expenditures - \$10,000 One-Time

Other Fiscal Impact – The fiscal impact of this bill is dependent upon the number of business enterprises meeting the capital investment and new job requirements proposed in this legislation. For every business enterprise meeting the criteria, approximately \$2,500,000 in additional job tax credits would be authorized. Given that the Commissioner of the Department of Economic and Community Development (ECD) and the Comptroller of the Treasury are required, as part of this legislation, to make official determinations as to the location and nature of the capital investment being economically desirable and in the best interests of the citizens of the state, and that the capital investment or jobs created are a result of the credits provided in this legislation, the fiscal impact of this bill is considered forgone state revenues estimated to be \$2,500,000 per year per business enterprise meeting the proposed qualifying criteria.

Based on new information received by the Department of Revenue, the estimated fiscal impact of this bill is:

(Corrected)

Increase State Expenditures - \$10,000 One-Time

Other Fiscal Impact - The fiscal impact of this bill is dependent upon the number of qualified business enterprises meeting the capital investment and new job requirements proposed in this legislation. For each qualified business enterprise (QBE) that exceeds the minimum criteria, additional job tax credits would be authorized. As a result, state revenues would decrease in the fiscal year corresponding to the first tax year of the QBE by an amount exceeding \$2,500,000. If the Commissioner of the Department of

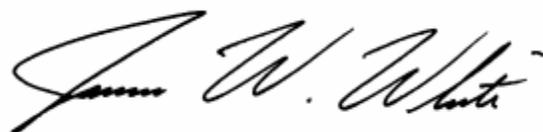
Economic and Community Development (ECD) and the Comptroller of the Treasury make an official determination as to the location and nature of the capital investment being economically desirable and in the best interests of the citizens of the state, and that the capital investment or jobs created are a result of the credits being provided in this legislation, and additional credits beyond the first tax year are extended to the QBE for a period up to ten years as a result of this official determination, then such subsequent credits beyond the first tax year would be considered foregone state revenues. In addition, there could be some residual economic impacts that occur as a result of this legislation. Any such effects are not sufficiently measurable to be included in the quantifiable fiscal impact of this bill.

Assumptions:

- Job tax credits can be applied toward a qualified business enterprise's total franchise and excise tax liability for any tax year up to a total period not to exceed ten years.
- Prior to any QBE receiving additional or extended job tax credits in subsequent tax years following the first tax year, the Commissioner of ECD, with the written concurrence of the Comptroller, must determine that the location and nature of the capital investment is economically desirable and in the best interests of the citizens of the state, and that the capital investment or jobs created are a result of the credits provided in this proposed legislation.
- Given the \$100,000,000 minimum capital investment requirement of this bill, in conjunction with the requirement that every \$100,000 of capital investment must create at least one net new full-time job, a business enterprise would have to create at least 1,000 net new full-time jobs in order to become eligible for the \$4,500 job tax credit proposed in this legislation.
- Business enterprises that meet the proposed criteria are currently eligible for \$2,000 job tax credits.
- Therefore, any business enterprise that meets or exceeds the minimum qualifying criteria would be eligible for additional job tax credits equal to an amount estimated to exceed \$2,500,000 (At least 1,000 new jobs created X [\$4,500 proposed credit - \$2,000 current credit] = Minimum \$2,500,000 in additional job tax credits).
- Enactment of this bill would require one-time state expenditures for computer programming and software modifications in the DOR estimated to be \$10,000.

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.



James W. White, Executive Director