

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0417-07
Bill No.: Perfected HCS for HB Nos. 191 & 182
Subject: Business and Commerce; Economic Development; Tax Credits
Type: Original
Date: March 6, 2013

Bill Summary: This proposal establishes the Missouri Angel Investment Incentive to stimulate small business growth.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
General Revenue	\$0 to (\$6,000,000)	\$0 to (\$6,000,000)	\$0 to (More than \$6,000,000)
Total Estimated Net Effect on General Revenue Fund	\$0 to (\$6,000,000)	\$0 to (\$6,000,000)	\$0 to (More than \$6,000,000)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Note: The fiscal note does not reflect the possibility that some of the tax credits could be utilized by insurance companies against insurance premium taxes. If this occurs, the loss in tax revenue would be split between the General Revenue Fund and the County Foreign Insurance Fund, which ultimately goes to local school districts.

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Total Estimated Net Effect on FTE	0	0	0

- Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).
- Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

§§ 348.273 and 348.274 Missouri Angel Investment Incentive Act

Officials at the **Office of Administration - Budget and Planning (BAP)** assume this part of the proposal creates the Missouri Angel Investment Incentive Act. The total amount of tax credits available for this program could reach \$161.7 million, with a total of \$6 million allowed annually for tax years 2014 and 2015. However, there are provisions for the balance of unissued tax credits to be carried over for issuance in future years until December 31, 2024. This proposal could therefore lower General and Total State Revenues by that amount. This program may encourage other economic activity, but BAP does not have data to estimate the induced revenues.

Officials at the **Department of Economic Development (DED)** assume this part of the proposal creates the Missouri Angel Investment Incentive Act to be administered by the Missouri Small Business and Technology Development Centers, University of Missouri. DED is a recipient of the annual report for the program. As a result of the proposal, DED assumes an unknown negative fiscal impact over \$100,000, offset by an unknown positive economic benefit based on the increase in economic activity.

In response to a previous version, officials at the **University of Missouri** assumed this proposal would have no financial impact on the University.

In response to a previous version, officials at the **Department of Revenue (DOR)** assumed this proposal would require changes to various tax systems. These changes are estimated to cost \$22,722 for 840 FTE hours. Additionally, DOR's Personal Tax Division will need one Revenue Processing Technician I (\$25,884) per 4,000 tax credits claimed and one Revenue Processing Technical I (\$25,884) per 2,400 pieces of correspondence. DOR's Corporate Tax Division will need one Revenue Processing Technician I (\$25,884) per 4,000 tax credits redeemed.

Oversight assumes DOR is provided with core funding to handle a certain amount of computer programming activity each year. Oversight assumes DOR could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, DOR could request funding through the appropriation process.

Oversight assumes DOR's Personal/Corporate Tax Divisions could absorb the responsibilities of this tax credit with existing resources. Should DOR experience the number of additional tax credit redemptions to justify another FTE, they could seek that FTE through the appropriation process.

ASSUMPTION (continued)

In response to a previous version, officials from the **Department of Insurance, Financial Institutions and Professional Registration (DIFP)** stated an unknown reduction of premium tax revenues as a result of the establishment of the Missouri Angel Investment Act is possible. Premium tax revenue is split 50/50 between General Revenue and County Foreign Insurance Fund except for domestic Stock Property and Casualty Companies who pay premium tax to the County Stock Fund. The County Foreign Insurance Fund is later distributed to school districts throughout the state. County Stock Funds are later distributed to the school district and county treasurer of the county in which the principal office of the insurer is located. It is unknown how each of these funds may be impacted by tax credits each year.

DIFP will require minimal contract computer programming to add this new tax credit to the premium tax database and can do so under existing appropriation. However, should multiple bills pass that would require additional updates to the premium tax database, the department may need to request more expense and equipment appropriation through the budget process.

Oversight assumes the changes to an existing program and creation of a new program in this proposal would have a positive impact on the state. However, Oversight considers this to be indirect impact of the proposal and will not reflect it in the fiscal note.

Oversight assumes this proposal establishes an annual cap of \$6,000,000 in FY 2014 and FY 2015. The provisions of this proposal allow the cap to be raised by 20% each fiscal year following guidelines established in the proposal. Oversight will indicate a revenue reduction of \$0 (no credits issued) to the annual \$6,000,000 cap for FY 2014 and FY 2015. Oversight will indicate a revenue reduction in FY 2016 of \$0 (no credits issued) to More than \$6,000,000 due to the uncertainty of if and by how much the cap could be increased.

Oversight assumes the amendment regarding giving a two percent equity interest of a business to the Department of Economic Development would not have a fiscal impact within the scope of this fiscal note.

<u>FISCAL IMPACT - State Government</u>	FY 2014 (10 Mo.)	FY 2015	FY 2016
GENERAL REVENUE			
<u>Revenue Reduction - § 348.273 - creation of the Angel Investment Incentive Act</u>	\$0 to <u>(\$6,000,000)</u>	\$0 to <u>(\$6,000,000)</u>	\$0 to (More than <u>\$6,000,000)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE	\$0 to <u>(\$6,000,000)</u>	\$0 to <u>(\$6,000,000)</u>	\$0 to (More than <u>\$6,000,000)</u>

Note: The fiscal note does not reflect the possibility that some of the tax credits could be utilized by insurance companies against insurance premium taxes. If this occurs, the loss in tax revenue would be split between the General Revenue Fund and the County Foreign Insurance Fund, which ultimately goes to local school districts.

<u>FISCAL IMPACT - Local Government</u>	FY 2014 (10 Mo.)	FY 2015	FY 2016
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

Small businesses that qualify for the credit could be impact.

FISCAL DESCRIPTION

The Missouri Angel Investment Incentive Act is established and is to be administered by the regional Missouri Small Business and Technology Development Center (SBTDC) and the SBTDC home office. The primary goal of the act is to encourage individuals to provide seed-capital financing for emerging Missouri businesses engaged in the development, implementation, and commercialization of innovative technologies, products, and services.

A tax credit must be allowed for an investor's cash investment in the qualified securities of a qualified Missouri business. The credit must be in a total amount equal to 50% of the investor's cash investment in any qualified Missouri business. This tax credit may be used in its entirety in

the taxable year in which the cash investment is made except that no tax credit can be allowed in

FISCAL DESCRIPTION (continued)

a year prior to 2013. If the amount by which that portion of the credit allowed exceeds the investor's liability in any one taxable year, beginning in 2013, the remaining portion of the credit may be carried forward until the total amount of the credit is used. If the investor is a permitted entity investor, the credit must be claimed by the owners of the permitted entity investor in proportion to their cash investment in the permitted entity investor. The maximum tax credit allowed is \$50,000 for a single qualified Missouri business or a total of \$250,000 in tax credits for a single year per investor who is a natural person or owner of a permitted entity investor. No tax credits can be allowed for any cash investments in qualified securities for any year beginning after December 31, 2023. The total amount of tax credits that can be allowed cannot exceed \$6 million during any tax year. The balance of unissued tax credits may be carried over for issuance in future years until December 31, 2023.

The provisions of the bill expire December 31, 2023.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Economic Development
Department of Insurance, Financial Institutions and Professional Registration
Department of Revenue
Office of Administration
 Budget and Planning
University of Missouri



Ross Strope
Acting Director
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