COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0807-01
Bill No.: HB 389
Subject: Tax Credits; Economic Development Department; Economic Development
Type: Original
Date: February 15, 2013

Bill Summary: This proposal reauthorizes the tax credits for qualified research expenses, limits the annual credits to $10 million, limits the qualified research activities, and specifies how the credits are to be used.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
General Revenue	$0 to ($10,000,000)	$0 to ($10,000,000)	$0 to ($10,000,000)
Total Estimated Net Effect on General Revenue Fund	**$0 to ($10,000,000)**	**$0 to ($10,000,000)**	**$0 to ($10,000,000)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Total Estimated Net Effect on Other 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 5 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Total Estimated Net Effect on All 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

Officials at the **Office of Administration - Budget and Planning** assume this proposal reauthorizes a tax credit for qualified research expenses. The program is authorized to issue up to $10 million dollars annually in tax credits. This proposal could therefore lower General and Total State Revenues by that amount.

Officials at the **Department of Economic Development** (**DED**) assume this proposal re-establishes the Qualified Research Expense Tax Credit program with a $10 million annual cap effective January 1, 2014, and extends the program through 2020. DED's Division of Business and Community Development is responsible for the administration of the tax credit program, which requires determining eligibility for the tax credit and also for ensuring compliance with the program. DED assumes the need for one additional FTE and related costs to administer the program. This FTE would be an Economic Development Incentive Specialist III and would be responsible for reviewing the tax credit applications to make sure they meet the criteria of the program, authorizing and issuing the tax credit awards, and ensuring compliance with the program. The annual calendar year cap for this tax credit is $10 million. DED assumes a $10 million per calendar year negative impact to Total State Revenue, which may be offset by an unknown positive economic benefit as a result of the economic activity generated by the program.

It is unclear how many taxpayers would be eligible for this credit; therefore, **Oversight** assumes DED would be able to absorb the work of this credit with existing FTE. Should the number of applicants reach the number where additional FTE would be needed, DED could request the FTE through the appropriation process.

Officials at the **Department of Agriculture** and the **Department of Revenue** each assume there is no fiscal impact to their organization from this proposal.

Officials from the **Department of Insurance, Financial Institutions and Professional Registration (DIFP)** state an unknown reduction of premium tax revenues as a result of the reauthorization of the tax credit for qualified research 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.

ASSUMPTION (continued)

Oversight assumes this proposal originally expired on December 31, 2004. This proposal starts the tax credit on January 1, 2014, and changes the cap to $10 million annually. Oversight will reflect a loss of revenue to the State as $0 (no additional credits issued) to the annual cap.

Oversight assumes the changes to the 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.

FISCAL IMPACT - State Government	FY 2014 (10 Mo.)	FY 2015	FY 2016
GENERAL REVENUE			
Revenue Reduction - extension of the qualified research tax credit	$0 to ($10,000,000)	$0 to ($10,000,000)	$0 to ($10,000,000)
ESTIMATED NET EFFECT ON GENERAL REVENUE	**$0 to ($10,000,000)**	**$0 to ($10,000,000)**	**$0 to ($10,000,000)**

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.

FISCAL IMPACT - Local Government	FY 2014 (10 Mo.)	FY 2015	FY 2016
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

Small businesses that qualify for the credit could be impacted.

FISCAL DESCRIPTION

Currently, no tax credits for qualified research expenses can be approved, awarded, or issued. This bill removes these restrictions and authorizes a tax credit of up to 6.5% of a taxpayer's qualified research expenses. The annual aggregate cap on the amount of these tax credits that can be authorized by the Department of Economic Development is $10 million.

JH:LR:OD

FISCAL DESCRIPTION (continued)

Qualified research expenses will be limited to those incurred in the research and development of agricultural biotechnology, plant genomics products, diagnostic and therapeutic medical devices, or prescription pharmaceuticals consumed by humans or animals. Expenses incurred in the research, development, or manufacture of power system technology for aerospace, space, defense, or implantable or wearable medical devices are also permitted.

The department director may allow a taxpayer to transfer up to 40% of the tax credits issued, but not yet claimed, between January 1, 2014, and December 31, 2020. The department director must act between August 1 and August 15 on tax credit applications filed between January 1 and July 1 for claims from the previous year. The formula is specified by which tax credits will be issued if the eligible claims for the credits exceed the annual cap. No one taxpayer can be issued more than 30% of the total amount of tax credits authorized in any calendar year.

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

Ross Strope
Acting Director
February 15, 2013

JH:LR:OD