COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4484-01
Bill No.: HB 1236
Subject: Tax Credits; Economic Development; Department of Economic Development
Type: Original
Date: January 21, 2014

Bill Summary: This proposal establishes the Missouri Angel Investment Act.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
General Revenue	$0 to ($6,000,000)	$0 to (More than $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 (More than $6,000,000)**	**$0 to (More than $6,000,000)**

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.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

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

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
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 2015	FY 2016	FY 2017
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Office of Administration's Division of Budget and Planning** (**BAP**) assume this proposal would not impact BAP. This proposal creates the Missouri Angel Investment Incentive Act. The total amount of tax credits available for this program could reach $66 million, with a total of $6 million allowed annually for tax years 2014 to 2024. There are provisions for the balance of annually unissued tax credits to be carried over for issuance in future years until the end of the program (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. The Department of Economic Development may have such an estimate.

Officials at the **Department of Economic Development** (**DED**) assume there is no fiscal impact from this proposal.

In response to similar legislation filed last year, HB 191, officials at the **Department of Revenue** (**DOR**) assumed this proposal would require changes to various tax systems. These changes were estimated to cost $22,722 for 840 FTE hours. Additionally, DOR's Personal Tax Division would 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 would 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.

Oversight assumes the Angel Investment Incentive Act is to begin on January 1, 2014, and therefore, the credits will affect the State beginning FY 2015. Oversight assumes this proposal allows any credits not issued in a year to be carried forward to the next fiscal year. Oversight will show the impact of this proposal as $0 (no credits issued) to $6 million in the first year and More than $6 million each year thereafter.

ASSUMPTION (continued)

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 establishment of the Missouri Angel Investment Act is possible. It is unknown how many insurance companies will choose to participate in this program and take advantage of the tax credits. The department has no means to arrive at a reasonable estimate of loss in premium tax revenue as a result of tax credits. 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.

Officials at the **University of Missouri** assume there is no fiscal impact from this proposal.

FISCAL IMPACT - State Government	FY 2015 (10 Mo.)	FY 2016	FY 2017
GENERAL REVENUE			
Revenue Reduction - Missouri Angel Investment Incentive tax credit	$0 to ($6,000,000)	$0 to (More than $6,000,000)	$0 to (More than $6,000,000)
ESTIMATED NET EFFECT ON GENERAL REVENUE	**$0 to ($6,000,000)**	**$0 to (More than $6,000,000)**	**$0 to (More than $6,000,000)**

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 2015 (10 Mo.)	FY 2016	FY 2017
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

Small businesses that can receive the credit or be invested in may be impacted.

FISCAL DESCRIPTION

This bill establishes the Missouri Angel Investment Incentive Act which is to be administered by the regional Missouri Small Business and Technology Development Center (SBTDC) and the coordinator who is 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. Each regional SBTDC must establish a regional committee of at least three but no more than five people to review applications from businesses requesting designation as a qualified Missouri business and allocate and issue tax credits to qualified investors who make cash investments in the qualified Missouri business.

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 a year prior to 2014. If the amount by which that portion of the credit allowed exceeds the investor's liability in any one taxable year, beginning in 2014, 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, 2024. The total amount of tax credits that can be allowed cannot exceed $6 million during any tax year during the tax year 2014 and each tax year thereafter. The balance of unissued tax credits may be carried over for issuance in future years until December 31, 2024.

The provisions of the bill expire December 31, 2024.

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

JH:LR:OD

SOURCES OF INFORMATION

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

Not Responding
Department of Revenue

Mickey Wilson, CPA
Director
January 21, 2014

Ross Strope
Assistant Director
January 21, 2014

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