

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1248-02
Bill No.: SB 246
Subject: Business and Commerce; Economic Development Department; Taxation and Revenue - Income; Tax Credits
Type: Original
Date: February 14, 2011

Bill Summary: This proposal creates a tax credit for investments in technology-based early state Missouri companies.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
General Revenue	\$0 or (\$5,000,000)	\$0 or (\$5,000,000)	\$0 or (\$5,000,000)
Total Estimated Net Effect on General Revenue Fund	\$0 or (\$5,000,000)	\$0 or (\$5,000,000)	\$0 or (\$5,000,000)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on <u>Other</u> 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 2012	FY 2013	FY 2014
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
General Revenue	1 FTE	1 FTE	1 FTE
Total Estimated Net Effect on FTE	1 FTE	1 FTE	1 FTE

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 2012	FY 2013	FY 2014
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Budget and Planning (BAP)** assume this proposal will not affect BAP. This proposal creates a tax credit program to encourage equity investments in early stage technology companies. The total amount of tax credits cannot exceed \$5 million or the amount appropriated. Therefore, this proposal may reduce general and total state revenue up to \$5 million.

Officials from the **Department of Economic Development (DED)** state their Business and Community Services would 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 and approving the Qualified Missouri Businesses, reviewing the tax credit applications to make sure they meet the criteria of the program and completing an annual report. The legislation allows for reasonable costs of the administration of the program to be reimbursed through fees paid by the Qualified Missouri businesses; therefore DED anticipates the cost of the FTE would be offset by the collected fees. DED assumes the total cost of the FTE to be roughly \$60,576 per year.

The tax credit is subject to appropriation, however the new program has a not-to-exceed cap of \$5 million per tax year. The tax credits may be carried forward for the next 3 consecutive tax years and may be sold, assigned and transferred. DED anticipates an offset of unknown positive economic benefits as a result of the tax credit program and the economic activity generated by the program, so the exact amount of the impact cannot be determined.

Oversight assumes DED's estimate of expense and equipment cost for the new FTE could be overstated. If DED is able to use existing desks, file cabinets, chairs, etc., the estimate for equipment for fiscal year 2012 could be reduced by roughly \$6,450.

Oversight has shown for the purpose of the fiscal note that the amount of the fee collected from the businesses to equal the FTE costs of DED. This proposal states the cost of the administration of this program shall be reimbursed through fees paid by the qualified Missouri businesses.

Officials at the **Department of Revenue (DOR)** assume they will need to make form changes and programming changes to various processing systems.

DOR's Personal Tax Division will require one Revenue Processing Technician I per 6,000 additional redemptions. DOR's Corporate Tax Division will require one Revenue Processing Technician I per 6,000 additional redemptions with CARES equipment and agent license.

ASSUMPTION (continued)

Oversight assumes it is unclear how many tax credits will be claimed. Oversight assumes that DOR can absorb the cost of this proposal with existing staff.

DOR's response to a proposal similar to or identical to this one in a previous session indicated the department planned to absorb the administrative costs to implement the proposal. Due to budget constraints, reduction of staff and the limitations within the department's tax systems, changes cannot be made without significant impact to the department's resources and budget. Therefore, the IT portion of the fiscal impact is estimated with a level of effort valued at \$26,712 which is 1,008 FTE hours.

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

Oversight compared the total tax credit issuances relative to the total tax credit redemptions for the previous three years in order to determine a relationship between the two. Oversight discovered that the annual redemptions ranged from 85 percent to 106 percent of the annual issuances. Depending on the program, the redeemed credits may have been issued several years prior and carried forward to the years studied; however, Oversight will utilize an estimated redemption total of 95 percent of tax credits issued. Therefore, if \$5 million credits are issued, Oversight would assume \$4,750,000 credits would be redeemed.

Oversight will range the fiscal impact of the programs from \$0 (no tax credits issued) to the annual limit of \$5 million. Oversight assumes there would be some positive economic benefit to the state as a result of the changes in this proposal; however, Oversight considers these benefits to be indirect and therefore, have not reflected them in the fiscal note.

This proposal could result in a decrease in Total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2012 (10 Mo.)	FY 2013	FY 2014
GENERAL REVENUE			
<u>Revenue</u> - fee collected to cover all administration expenses	\$60,576	\$65,674	\$66,406
<u>Costs</u> - DED			
Personal Service (1 FTE)	(\$33,510)	(\$40,614)	(\$41,020)
Fringe Benefits	(\$17,539)	(\$21,257)	(\$21,470)
Expense and Equipment	(\$9,527)	(\$3,803)	(\$3,916)
<u>Total Costs</u> - DED	(\$60,576)	(\$65,674)	(\$66,406)
FTE Change - DED	1 FTE	1 FTE	1 FTE
<u>Loss</u> - tax credit for investments in technology based early stage MO companies	<u>\$0 or</u> (\$5,000,000)	<u>\$0 or</u> (\$5,000,000)	<u>\$0 or</u> (\$5,000,000)
ESTIMATED NET EFFECT ON GENERAL REVENUE			
	<u>\$0 or</u> <u>(\$5,000,000)</u>	<u>\$0 or</u> <u>(\$5,000,000)</u>	<u>\$0 or</u> <u>(\$5,000,000)</u>
 <u>FISCAL IMPACT - Local Government</u>			
	FY 2012 (10 Mo.)	FY 2013	FY 2014
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

Small businesses that qualify for the tax credit could experience a positive impact.

FISCAL DESCRIPTION

This act allows the Department of Economic Development, subject to appropriation, to authorize tax credits encourage equity investment in technology-based early stage Missouri companies, commonly referred to as angel investments. Investors who contribute the first five hundred thousand dollars in equity investment to a qualified Missouri business may be issued a tax credit if the qualified Missouri business ceases to do business due to liquidation, winding up, cancellation, or dissolution within six years of the date of investment. Annual authorizations of

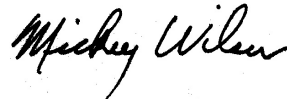
FISCAL DESCRIPTION (continued)

the tax credits will be limited to the lesser of the amount appropriated by the general assembly or five million dollars. The tax credits will be equal to thirty percent of the investment. Investors are prohibited from receiving more than fifty thousand dollars in tax credits for a single investment or more than one hundred thousand dollars for investments in more than one qualified business per year. Tax credits for equity investment in technology-based early stage Missouri companies may be carried forward for up to three years or transferred.

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

Budget and Planning
Department of Economic Development
Department of Revenue



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Director
February 14, 2011