COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

# FISCAL NOTE

L.R. No.: 5339-01
Bill No.: HB 1974
Subject: Revenue Department; Taxation and Revenue
Type: Original
Date: March 28, 2006

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## FISCAL SUMMARY

| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2007 | FY 2008 | FY 2009 |
| General Revenue | $0 | $0 to (Unknown) | $0 to (Unknown) |
| | | | |
| **Total Estimated Net Effect on General Revenue Fund*** | **$0** | **$0 to (Unknown)** | **$0 to (Unknown)** |

**Could exceed $100,000**

| ESTIMATED NET EFFECT ON OTHER STATE FUNDS | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2007 | FY 2008 | FY 2009 |
| Insurance Dedicated | ($2,164) | $0 | $0 |
| | | | |
| **Total Estimated Net Effect on Other State Funds*** | **($2,164)** | **$0** | **$0** |

*** The fiscal impact could be divided between the General Revenue Fund and the County Foreign Insurance Fund (which ultimately goes to local school districts) if some of the tax credits are utilized against insurance premium taxes.**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 5 pages.

| ESTIMATED NET EFFECT ON FEDERAL FUNDS | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2007 | FY 2008 | FY 2009 |
| | | | |
| | | | |
| **Total Estimated Net Effect on All Federal Funds** | **$0** | **$0** | **$0** |

| ESTIMATED NET EFFECT ON LOCAL FUNDS | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2007 | FY 2008 | FY 2009 |
| **Local Government*** | **$0** | **$0** | **$0** |

*** The fiscal impact could be divided between the General Revenue Fund and the County Foreign Insurance Fund (which ultimately goes to local school districts) if some of the tax credits are utilized against insurance premium taxes.**

## FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Secretary of State (SOS)** state many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the SOS for Administrative Rules is less than $1,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, the SOS also recognizes that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what the office can sustain with the core budget. Therefore, the SOS reserves the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Officials from the **Department of Revenue (DOR)** state the bill, as worded, would require 1 Tax Processing Technician I for every 4,000 credits claimed. At this time, DOR does not believe the volume of credit applications will reach this volume. In the event the volume does reach the level requiring additional FTE, they will be requested through the regular budget process.

ASSUMPTION (continued)

Officials from the **Department of Insurance (INS)** state it is unknown how many insurance companies will choose to participate in this program and take advantage of the tax credits. INS can not estimate how much would be lost in premium tax revenue as a result of tax credits. There is no limit on the amount that insurance companies can claim except that credits cannot exceed the total tax liability (both Premium tax and Retaliatory tax). Premium/Retaliatory 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 through out 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 tax credits each year.

INS states they will require $2,164 for contract computer programming to add this new tax credit to the premium tax database.

Officials from the **Office of Administration - Budget and Planning (BAP)** state the proposal would not fiscally impact their agency. This legislation is similar to the Federal New Markets Tax Credit Program which authorizes tax credits to any investor who makes investments in low income communities.

BAP assumes this proposal could have a negative impact on general revenue. The credit is not capped and may be taken against any state tax liability - income tax, corporate franchise tax, financial institutions tax, public utility tax, or insurance retaliatory tax.

There is no annual or cumulative cap on this program, so **Oversight** will assume an unknown loss of revenue from the tax credits. Oversight will range the fiscal impact of this proposal from $0 (no tax credits utilized) to an unknown loss of income from the new credits.

**This proposal may reduce Total State Revenues.**

| FISCAL IMPACT - State Government | FY 2007 (10 Mo.) | FY 2008 | FY 2009 |
|---|---|---|---|
| **GENERAL REVENUE** | | | |
| Loss - Tax credit for qualified equity investments | $0 | $0 to (Unknown) | $0 to (Unknown) |
| **ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND** | **$0** | **$0 to (Unknown)** | **$0 to (Unknown)** |

**Note: This 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.**

| | | | |
|---|---|---|---|
| **INSURANCE DEDICATED FUND** | | | |
| Cost - Dept. of Insurance Reprogramming costs | ($2,164) | $0 | $0 |
| **ESTIMATED NET EFFECT ON INSURANCE DEDICATED FUND** | **($2,164)** | **$0** | **$0** |

| FISCAL IMPACT - Local Government | FY 2007 (10 Mo.) | FY 2008 | FY 2009 |
|---|---|---|---|
| | **$0** | **$0** | **$0** |

FISCAL IMPACT - Small Business

Small businesses that qualify for the tax credit could be fiscally impacted from this proposal.

DESCRIPTION

Beginning January 1, 2007, this bill authorizes a tax credit equal to 5% of the adjusted purchase price paid to the issuer of a qualified equity investment. The tax credits are not transferable or refundable, but may be carried forward until used. The bill allows for state recapture of credits where permissible under federal law.

The provisions of the bill will expire six years from the effective date

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 Revenue
Department of Insurance
Office of Administration - Budget and Planning
Office of the Secretary of State

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