

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0077-03
Bill No.: HB 312
Subject: Agriculture and Animals; Economic Development; Tax Credits
Type: Original
Date: January 26, 2009

Bill Summary: This proposal re-authorizes the tax credits for qualified research expenses.

FISCAL SUMMARY

| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | | | |
|--|---|---|---|
| FUND AFFECTED | FY 2010 | FY 2011 | FY 2012 |
| General Revenue | (\$59,251) to (\$10,059,251) | (\$62,941) to (\$10,062,941) | (\$64,828) to (\$10,064,828) |
| | | | |
| Total Estimated Net Effect on General Revenue Fund* | (\$59,251) to (\$10,059,251) | (\$62,941) to (\$10,062,941) | (\$64,828) to (\$10,064,828) |

| ESTIMATED NET EFFECT ON OTHER STATE FUNDS | | | |
|--|------------|------------|------------|
| FUND AFFECTED | FY 2010 | FY 2011 | FY 2012 |
| | | | |
| | | | |
| Total Estimated Net Effect on <u>Other</u> State Funds* | \$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.

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

| ESTIMATED NET EFFECT ON FEDERAL FUNDS | | | |
|---|------------|------------|------------|
| FUND AFFECTED | FY 2010 | FY 2011 | FY 2012 |
| | | | |
| | | | |
| Total Estimated Net Effect on <u>All</u> Federal Funds | \$0 | \$0 | \$0 |

| ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE) | | | |
|---|----------|----------|----------|
| FUND AFFECTED | FY 2010 | FY 2011 | FY 2012 |
| General Revenue | 1 FTE | 1 FTE | 1 FTE |
| | | | |
| Total Estimated Net Effect on FTE | 1 | 1 | 1 |

☐ 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 2010 | FY 2011 | FY 2012 |
| 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 **Department of Economic Development (DED)** assume the need for one 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, drafting and sending the tax credit awards and ensuring compliance with the program. The related costs include one-time expenditures for systems furniture, a side chair, file cabinet, calculator and telephone and recurring costs for office supplies, computer, professional development and travel. DED assumes the new annual credit limit to be \$10 million and the credit is no longer discretionary.

DED assumes an annual cost to the General Revenue fund of roughly \$63,000 for the FTE plus a loss of tax revenue from the credits of \$10 million.

Officials from the **Department of Revenue** assume the proposal would not fiscally impact their agency.

Officials from the **Department of Insurance, Financial Institutions and Professional Registration (DIFP)** state it is unknown how many insurance companies will choose to participate in this program and take advantage of the 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 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.

Officials from the **Office of Administration - Budget and Planning** did not respond to our request for fiscal impact.

Oversight compared the total tax credit issuances relative to the total tax credit redemptions for the previous four years in order to determine a relationship between the two. Oversight discovered that the annual redemptions ranged from 81 percent to 86 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 83 percent of tax credits issued. Therefore, if \$10 million credits are issued, Oversight would assume \$8,300,000 credits would be redeemed.

ASSUMPTION (continued)

Oversight will range the fiscal impact of the programs from \$0 (no additional tax credits will be issued) to the annual limit of \$10 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 reduce Total State Revenues.

| <u>FISCAL IMPACT - State Government</u> | FY 2010 (10 Mo.) | FY 2011 | FY 2012 |
|---|--|--|--|
| GENERAL REVENUE | | | |
| <u>Costs - DED</u> | | | |
| Personal Service (1 FTE) | (\$32,012) | (\$39,567) | (\$40,754) |
| Fringe Benefits | (\$15,567) | (\$19,241) | (\$19,819) |
| Expense and Equipment | (\$10,421) | (\$4,133) | (\$4,255) |
| ITSD Time | <u>(\$1,251)</u> | <u>\$0</u> | <u>\$0</u> |
| <u>Total Costs - DED</u> | (\$59,251) | (\$62,941) | (\$64,828) |
| FTE Change - DED | 1 FTE | 1 FTE | 1 FTE |
| <u>Loss - Qualified Research tax credit</u> | \$0 to <u>(\$10,000,000)</u> | \$0 to <u>(\$10,000,000)</u> | \$0 to <u>(\$10,000,000)</u> |
| ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND | (\$59,251) to <u>(\$10,059,251)</u> | (\$62,941) to <u>(\$10,062,941)</u> | (\$64,828) to <u>(\$10,064,828)</u> |
| Estimated Net FTE Change for General Revenue Fund | 1FTE | 1FTE | 1FTE |

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.

FISCAL IMPACT - Local Government

FY 2010
(10 Mo.)

FY 2011

FY 2012

\$0

\$0

\$0

FISCAL IMPACT - Small Business

Small businesses that qualify under the program could be positively impacted as a result of this proposal.

FISCAL DESCRIPTION

This proposal re-authorizes the tax credits for qualified research expenses. The program had an aggregate cap of \$9.7 million dollars and for all years beginning on or after January 1, 2005, no tax credits could be approved, awarded or issued (SB 1155 - 2004). This proposal reauthorizes the program and changes the cap to \$10 million.

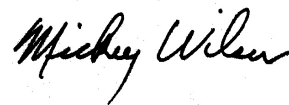
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Economic Development
Department of Revenue
Department of Insurance, Financial Institutions and Professional Registration

NOT RESPONDING:

Office of Administration - Budget and Planning



Mickey Wilson, CPA

L.R. No. 0077-03
Bill No. HB 312
Page 6 of 6
January 26, 2009

Director
January 26, 2009

RS:LR:OD (12/02)