

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 6053-01
Bill No.: HB 2302
Subject: Economic Development; Tax Credits; Business and Commerce
Type: Original
Date: January 25, 2016

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

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
General Revenue	\$0 or (67,229)	(Unknown to More than \$6,000,000)	(Unknown to More than \$6,000,000)
Total Estimated Net Effect on General Revenue	\$0 or (67,229)	(Unknown to More than \$6,000,000)	(Unknown to More than \$6,000,000)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
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 2017	FY 2018	FY 2019
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Total Estimated Net Effect on FTE	0	0	0

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Oversight was unable to receive some of the agency responses in a timely manner due to the short fiscal note request time. Oversight has presented this fiscal note on the best current information that we have or on prior year information regarding a similar bill. Upon the receipt of agency responses, Oversight will review to determine if an updated fiscal note should be prepared and seek the necessary approval of the chairperson of the Joint Committee on Legislative Research to publish a new fiscal note.

Officials at the **Department of Economic Development (DED)** assume §348.273 - Creates the Missouri Angel Investment Incentive Act under chapter 348.

§348.273.3 - For all tax years beginning on or after January 1, 2017, a tax credit shall be allowed for an investor's cash investment in the qualified securities of a qualified Missouri business occurring on or after August 28, 2016. The credit shall be in a total amount equal to fifty percent of such investor's cash investment in any qualified Missouri business, subject to the limitations. The amount may be carried forward for 5 years or until the total amount of the credit is used. There is a limit of \$50,000 in credits per investor for each qualified Missouri business per year and a total cap of \$250,000 per investor across all Missouri businesses per year. The total cap is \$6 million per year beginning in the 2017 tax year. The balance of unissued tax credits may be carried over for issuance in future years until December 31, 2022.

§348.273.4 - The legislation requires the Missouri Technology Corporation (MTC) to authorize that the investment was made in a qualified Missouri business. It includes requirements for the application to MTC in coordination with DED.

§348.274 - authorizes MTC and DED to allocate and issue these tax credits. The legislation sunsets six years after effective date.

This proposed legislation will require DED to implement and administer a new tax credit program so it will require 1 FTE Economic Development Incentive Specialist III (at \$52,092 per year). The negative impact to the state will be \$6,000,000 per year beginning in the 2017 tax year.

Oversight has, for fiscal note purposes only, changed the starting salary for the Economic Development Specialist III (\$42,288) to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees over the last six months and policy of the Oversight

ASSUMPTION (continued)

Subcommittee of the Joint Committee on Legislative Research.

Officials at the **Office of Administration's Division of Budget and Planning (BAP)** assume this proposal creates the Missouri Angel Investment Incentive Act. The total amount of tax credits available for this program could reach \$36 million, with a total of \$6 million allowed annually for tax years 2017 to 2022. This proposal could therefore lower General and Total State Revenues by that amount. There are provisions that allow for the balance of annually unissued tax credits to be carried over for issuance in future years. This program may encourage other economic activity, but BAP does not have data to estimate the induced revenues.

Officials at the **Department of Revenue (DOR)** assume §348.273 creates the Missouri Angel Investment Incentive Act. Beginning January 1, 2017, the provisions of subsection 4 allow a tax credit for investor's cash investment occurring on or after August 28, 2016. The credit equals 50

percent of the investor's cash investment. The Director of Economic Development and Missouri Technology Corporation has the responsibility to limit tax credits to no more than \$50,000 for a single business or a total of \$250,000 in credits for a single year per investor. The legislation caps the tax credit at \$6 million.

§348.274 the provisions of this section authorize the Missouri Technology Corporation to allocate tax credits to the qualified businesses and issue tax credits to qualified investors. Provisions of this section hold harmless the state of Missouri from any damages to any investor under certain circumstances.

Personal Tax requires two (2) Revenue Processing Technicians I for processing credits claimed and increased correspondence. Corporate Tax requires three (3) Revenue Processing Technician I for tax credit redemptions, tax credit transfers, compliance mailings, and additional correspondence.

Oversight assumes the duties outlined in this proposal can be handled by current staff. Should DED see an increase in redemptions to justify additional FTE, they can seek those FTE through the appropriation process.

Additionally, **DOR** assume the integrated tax system incurs additional costs of \$65,520 to implement the provisions of this legislation.

Oversight assumes the Angel Investment Incentive Act is to begin on January 1, 2017, and therefore, the credits will affect the State beginning FY 2018. Oversight assumes this proposal

ASSUMPTION (continued)

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 \$0 to More than \$6 million each year thereafter, accounting for unused credits being carried over to subsequent years.

<u>FISCAL IMPACT - State Government</u>	FY 2017	FY 2018	FY 2019
GENERAL REVENUE			
<u>Revenue Reduction</u> - creation of the Missouri Angel Investment Incentive tax credit	\$0	\$0 to (\$6,000,000)	\$0 to (More than \$6,000,000)
<u>Cost - DED/MTC</u>			
Personal Service	(\$35,240)	(\$42,711)	(\$43,138)
Fringe Benefits	(\$18,038)	(\$21,761)	(\$21,877)
Equipment and Expenses	(\$7,401)	(\$1,257)	(\$1,288)
<u>Total Cost - DED/MTC</u>	(\$60,679)	(\$65,729)	(\$66,303)
Total FTE Change - DED/MTC	1 FTE	1 FTE	1 FTE
<u>Cost - DOR - computer programming</u>	(\$65,520)	\$0	\$0
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>\$0 or (67,229)</u>	(Unknown to More Than \$6,000,000)	(Unknown to More Than \$6,000,000)
Estimated Net FTE Change on General Revenue	1 FTE	1 FTE	1 FTE
<u>FISCAL IMPACT - Local Government</u>	FY 2017	FY 2018	FY 2019
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

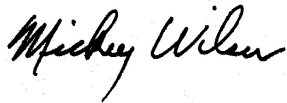
FISCAL DESCRIPTION

This proposal establishes the Missouri Angel Investment Incentive Act.

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

Office of Administration's Division of Budget and Planning
Department of Economic Development
Department of Revenue



Mickey Wilson, CPA
Director
January 25, 2016

Ross Strobe
Assistant Director
January 25, 2016