COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5309-01
Bill No.: SB 1188
Subject: Economic Development; Science and Technology; Tax Credits; Taxation and Revenue
Type: Original
Date: March 11, 2008

Bill Summary: This proposal modifies the provisions of the qualified research expense tax credit program.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
General Revenue	($64,208 to $10,064,208)	($69,289 to $10,069,289)	($71,367 to $10,071,367)
Total Estimated Net Effect on General Revenue Fund*	**($64,208 to $10,064,208)**	**($69,289 to $10,069,289)**	**($71,367 to $10,071,367)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Total Estimated Net Effect on Other 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 2009	FY 2010	FY 2011
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
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 2009	FY 2010	FY 2011
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 Revenue** assume the proposal would not fiscally impact their agency.

Officials from the **Office of Administration - Budget and Planning** state the proposal raises the amount of tax credits authorized for qualified research expenses from $9.7 million to $10 million; therefore, general revenue and total state revenues could be lowered by that amount. These credits may be transferred, sold or assigned.

In response to a similar proposal from this year (HB 2260), officials from the **Department of Insurance, Financial Institutions and Professional Registration (DIFP)** stated 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 **Department of Economic Development (DED)** state the proposal revives the Qualified Research and Development Tax Credit at a rate of $10 million per year. This cost could be offset by some positive but undetermined economic benefits to the state. Only cost is projected in this fiscal note.

DED assumes the need for one FTE Economic Development Incentive Specialist II (at $42,288 annually) and related costs to administer the program. DED assumes the new annual credit limit to be $10 million and the credit is no longer discretionary.

DED assumes the total cost of the new FTE to be roughly $85,000 annually. DED also states they have established with ITSD to set up a tax credit program for tracking. Costs is estimated at 40 hours at an hourly rate of $31.27.

Oversight has, for fiscal note purposes only, changed the starting salary for DED's Economic Development Incentive Specialist II 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

ASSUMPTION (continued)

starting salaries for new state employees and policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. Oversight also assumes the DED will not incur additional floor space expense for their additional FTE.

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 79 percent to 118 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 98.5 percent of tax credits issued. Therefore, under this proposal, if $10,000,000 of credits are issued, Oversight would assume $9,850,000 of credits to be redeemed, reducing Total State Revenues

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

The Qualified Research tax credit program was halted in 2004 with Senate Bill 1155. No tax credits have been issued for all tax years beginning on or after January 1, 2005. Therefore, with this bill, **Oversight** will reflect a new potential cost of up to $10 million per year. Also, previously, the tax credit issuance was at the discretion (may) of the Department of Economic Development; however, now the program is considered an entitlement (shall).

This proposal could reduce Total State Revenues.

FISCAL IMPACT - State Government	FY 2009 (10 Mo.)	FY 2010	FY 2011
GENERAL REVENUE FUND			
Costs - Department of Economic Development			
Personal Service (1 FTE)	($31,075)	($38,409)	($39,561)
Fringe Benefits	($14,065)	($17,384)	($17,905)
ITSD expense	($1,251)	$0	$0
Expense and Equipment	($17,817)	($13,496)	($13,901)
Total Costs - DED	($64,208)	($69,289)	($71,367)
FTE Change - DED	1 FTE	1 FTE	1 FTE
Loss - Research Tax Credit program, cap of $10 million annually (620.1039)	$0 to ($10,000,000)	$0 to ($10,000,000)	$0 to ($10,000,000)
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	**($64,208) TO ($10,064,208)**	**($69,289) TO ($10,069,289)**	**($71,367) TO ($10,071,367)**
Estimated Net FTE Change for General Revenue Fund	1 FTE	1 FTE	1 FTE

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 2009 (10 Mo.)	FY 2010	FY 2011
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

Small businesses that qualify for the Qualified Research Tax Credits may be positively fiscally impacted as a result of this proposal.

FISCAL DESCRIPTION

This proposal modifies provisions of law which authorize a tax credit for qualified research expenses. The tax credit is limited to research expenses incurred in the research and development of agricultural biotechnology, plant genomic products, and prescription pharmaceuticals consumed by humans or animals. The act modifies the time-line for application and issuance of tax credits under the program. Under current law, no qualified research expense tax credits may be approved, awarded or issued after January 1, 2005. This act removes the prohibition on approval and issuance of tax credits and increases the annual tax credit cap from nine million seven hundred thousand to ten million dollars. In the event the amount of claims for tax credits exceed the annual cap, the act provides a method for pro rating issuance of tax credits.

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
Office of Administration - Budget and Planning

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