COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1655-01
Bill No.: SB 288
Subject: Business and Commerce; Economic Development; Tax Credits; Taxation and Revenue
Type: Original
Date: February 3, 2009

Bill Summary: This proposal modifies provisions of law authorizing a tax credit for qualified research expenses.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
General Revenue	($64,886) to ($10,064,886)	($69,905) to ($10,069,905)	($72,001) to ($10,072,001)
Total Estimated Net Effect on General Revenue Fund*	**($64,886) to ($10,064,886)**	**($69,905) to ($10,069,905)**	**($72,001) to ($10,072,001)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
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 2010	FY 2011	FY 2012
Total Estimated Net Effect on All 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

In response to a similar proposal from this year (HB 312), officials from the **Department of Economic Development (DED)** assumed 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 $70,000 for the FTE plus a loss of tax revenue from the credits of $10 million.

In response to a similar proposal from this year (HB 312), officials from the **Department of Revenue** assumed the proposal would not fiscally impact their agency.

In response to a similar proposal from this year (HB 312), 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.

In response to a similar proposal from this year (HB 312), officials from the **Office of Administration - Budget and Planning (BAP)** stated this proposal reauthorizes the tax credit for qualified research expenses. The amount of tax credits available for this program is $10 million. This proposal could therefore lower general and total state revenues by that amount.

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

ASSUMPTION (continued)

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.

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.

FISCAL IMPACT - State Government	FY 2010 (10 Mo.)	FY 2011	FY 2012
GENERAL REVENUE			
Costs - DED			
Personal Service (1 FTE)	($35,803)	($44,252)	($45,580)
Fringe Benefits	($17,411)	($21,520)	($22,166)
Expense and Equipment	($10,421)	($4,133)	($4,255)
ITSD Time	($1,251)	$0	$0
Total Costs - DED	($64,886)	($69,905)	($72,001)
FTE Change - DED	1 FTE	1 FTE	1 FTE
Loss - Qualified Research tax credit	$0 to ($10,000,000)	$0 to ($10,000,000)	$0 to ($10,000,000)
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	**($64,886) to ($10,064,886)**	**($69,905) to ($10,069,905)**	**($72,001) to ($10,072,001)**
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 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 act modifies provisions of law which authorize a tax credit for qualified research expenses. The tax credit will be equal to ten percent of qualified research expenses incurred during the taxable year unless such expenses were incurred in a distressed community, in which case the credit will be equal to twenty-five percent of such expenses. Eligibility for receipt of the tax credit is limited to taxpayers with less than two hundred twenty-five employees, seventy-five percent of which must be employed within the state. Such taxpayers must be engaged, on a for-profit basis, in the development of medical instruments and devices, medical diagnostics and therapeutics, plant science products, pharmaceutical or veterinary products with agricultural applications, or other products derived from life or biomedical sciences in order to receive the credit. 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 provided that at least six million dollars in tax credits be authorized for qualified research expenses incurred in distressed communities. No more than five hundred thousand dollars may be allocated annually per taxpayer unless such taxpayer incurred the qualified research expenses in a distressed community in which case such taxpayer may not receive more than one million dollars in tax credits annually.

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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