

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1656-01
Bill No.: SB 285
Subject: Business and Commerce; Economic Development; Tax Credits; Taxation and Revenue
Type: Original
Date: February 3, 2009

Bill Summary: This proposal creates a tax credit for equity investments in technology-based early stage Missouri companies.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
General Revenue	\$0 to (\$5,066,137)	\$0 to (\$5,069,905)	\$0 to (\$5,072,001)
Total Estimated Net Effect on General Revenue Fund	\$0 to (\$5,066,137)	\$0 to (\$5,069,905)	\$0 to (\$5,072,001)

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

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

FISCAL ANALYSIS

ASSUMPTION

In response to similar proposals from this year (SB 285), officials from the **Department of Economic Development (DED)** assumed the Equity Investment Tax Credit will require one person to administer. DED assumes the Equity Investment Tax Credit will cost \$5 million per year and positive economic benefits will offset costs by year three. DED assumes costs shown in FY 10 may be needed sooner and be requested through emergency appropriation if the bill goes into effect prior to July 1, 2009 (FY 10).

Over all costs would include one personnel and associated costs which are estimated to total roughly \$85,000 per year. This FTE would be responsible for the Equity Investment Tax Credit program. These costs would be offset by an unknown but positive economic benefit to Missouri.

In response to similar proposals from this year (SB 285), officials from the **Department of Revenue (DOR)** assumed the proposal would not fiscally impact their agency. DOR stated that due to Statewide Information Technology Consolidation, DOR's response to a proposal will now also reflect the cost estimates prepared by OA-IT for impact to the various systems. As a result, the impact shown may not be the same as previous fiscal notes submitted. In addition, if the legislation is Truly Agreed to and Finally Passed the OA-IT costs shown will be requested through appropriations by OA-IT.

Office of Administration Information Technology (ITSD DOR) estimates the IT portion of this request can be accomplished within existing resources, however; if priorities shift, additional FTE/overtime would be needed to implement. The Office of Administration Information Technology (ITSD DOR) estimates that this legislation could be implemented utilizing 3 existing CIT III for 1 month for system modifications to MINITS and 3 existing CIT III for 3 months for system modifications to COINS, Café, and E-file. The estimated cost is \$53,292.

In response to similar proposals from this year (SB 285), officials from the **Office of Secretary of State (SOS)** stated 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 \$2,500. 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

ASSUMPTION (continued)

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.

In response to similar proposals from this year (HCS for HB 191), officials from the **Office of Administration - Budget and Planning** stated the bill proposes a tax credit for investors making equity investments in qualified technology-based early stage Missouri companies. The tax credit is equal to 30% of the investor's equity investment or 40% of their investment if the business is located in a rural or distressed community. The total amount of tax credits available for this program is \$5.0 million per year. Therefore, this could reduce general and total state revenues by \$5.0 million..

Oversight will range the fiscal impact of the tax credits for equity investments in technology-based early stage companies from \$0 (no tax credit issuances and/or redemptions) to the annual limit of \$5 million. Oversight will also range the amount of reimbursement DED is able to collect from tax credit applicants to recoup their expenses. Oversight will use the range of \$0 to the estimated cost of the additional FTE.

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, under this proposal, if \$5,000,000 of credits are issued under the new program, Oversight would assume \$4,150,000 (83%) of credits to be redeemed, reducing Total State Revenues.

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)	(\$35,803)	(\$44,252)	(\$45,580)
Fringe Benefits	(\$17,411)	(\$21,520)	(\$22,166)
Expense and Equipment	(\$10,421)	(\$4,133)	(\$4,255)
ITSD Hours	<u>(\$2,502)</u>	<u>\$0</u>	<u>\$0</u>
Total Costs - DED	(\$66,137)	(\$69,905)	(\$72,001)
FTE Change - DED	1 FTE	1 FTE	1 FTE
<u>Income - DED</u>			
Per Section 348.274.9, DED may recoup administrative costs	\$0 to \$66,137	\$0 to \$69,905	\$0 to \$72,001
<u>Loss - Tax Credit for equity investments in technology-based early stage Missouri companies (Section 348.274)</u>			
	\$0 to <u>(\$5,000,000)</u>	\$0 to <u>(\$5,000,000)</u>	\$0 to <u>(\$5,000,000)</u>
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	\$0 to <u>(\$5,066,137)</u>	\$0 to <u>(\$5,069,905)</u>	\$0 to <u>\$5,072,001</u>
Estimated Net FTE Change for General Revenue Fund	1 FTE	1 FTE	1 FTE
<u>FISCAL IMPACT - Local Government</u>	FY 2010 (10 Mo.)	FY 2011	FY 2012
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

Small businesses that qualify for the programs within this bill could be positively impacted as a result of this proposal.

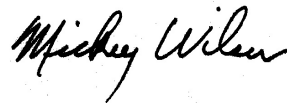
FISCAL DESCRIPTION

This act allows the Department of Economic Development to authorize up to \$5 million in tax credits per year to encourage equity investment in technology-based early stage Missouri companies, commonly referred to as angel investments. Investors who contribute the first five hundred thousand dollars in equity investment to a qualified Missouri business may be issued a tax credit equal to thirty percent of the investment or forty percent of the investment if the qualified business is located in a rural area or distressed community. An investor can receive a credit of up to fifty thousand dollars for an investment in a single qualified business and up to one hundred thousand dollars for investments in more than one qualified business per year. Tax credits for equity investment in technology-based early stage Missouri companies may be carried forward for up to three years or transferred.

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



Mickey Wilson, CPA
Director
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