

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0595-01
Bill No.: SB 78
Subject: Tax Credits; Economic Development
Type: Original
Date: December 30, 2016

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

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
General Revenue	(\$132,653)	(Up to \$5,072,681)	(Up to \$5,073,367)
Total Estimated Net Effect on General Revenue	(\$132,653)	(Up to \$5,072,681)	(Up to \$5,073,367)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
 This fiscal note contains 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
General Revenue	1 FTE	1 FTE	1 FTE
Total Estimated Net Effect on FTE	1 FTE	1 FTE	1 FTE

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 2018	FY 2019	FY 2020
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

§348.273 Angel Incentive Act

Officials at the **Department of Economic Development (DED)** and the **Office of Administration's Division of Budget and Planning (B&P)** note this section creates the Missouri Angel Investment Incentive Act. Beginning January 1, 2018, the provisions of subsection 3 allow a tax credit for investor's cash investment. The credit equals 50 percent of the investor's cash investment. The Director of the Department of Economic Development and the Missouri Technology Corporation have 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 \$5 million annually.

BAP assumes this proposal could lower General and Total State Revenues by \$5 million and could impact the calculation under Article X, Section 18(e). The total amount of tax credits available for this program could reach \$30 million, with a total of \$5 million allowed annually for tax years 2018 to 2023. The balance of unissued tax credits may be carried over for issuance in future years until December 31, 2023. This program may encourage other economic activity, but BAP does not have data to estimate the induced revenues. The Department of Economic Development may have such an estimate.

Oversight assumes the creation of this new program outlined in this proposal may have a positive impact on the state. However, Oversight considers this to be indirect impact of the proposal and will not reflect it in this fiscal note.

DED assumes this proposal creates the Missouri Angel Investment Incentive Fund. It is a tax credit issued by the DED to investors who invest in the securities of a "qualified Missouri businesses." Missouri Technology Corporation (MTC) decides who is a "qualified Missouri business." DED will need to hire one FTE (at \$53,136) to administer the program.

Oversight has, for fiscal note purposes only, changed the starting salary for the Economic Development Incentive Specialist III (to \$44,352) 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 and policy of the Oversight Subcommittee of the Joint Committee on Legislative Research.

ASSUMPTION (continued)

Officials at the **Department of Revenue (DOR)** assume programming changes to the integrated tax system to implement the provisions of this legislation will cost \$65,520. DOR's Personal Tax Division will require two (2) Revenue Processing Technicians I for processing credits claimed and increased correspondence. The Corporate Tax Division will require three (3) Revenue Processing Technicians I for tax credit redemptions, tax credit transfers, compliance mailings, and additional correspondence.

Oversight notes a significantly high percentage of income tax returns are prepared online, electronically, or by paid preparers, and assumes there would not be a significant number of additional errors resulting from the changes in this proposal. Oversight assumes existing DOR staffing would be adequate to implement this proposal. If unanticipated additional cost are incurred or if multiple proposals are implemented that increase DOR costs or the workload for DOR employees, resources could be requested through the budget process.

Oversight notes the changes in this proposal would be effective with tax year 2018, starting January 1, 2018, and the first income tax returns would be filed reflecting these changes in January, 2019 (FY 2019).

<u>FISCAL IMPACT - State Government</u>	FY 2018 (10 Mo.)	FY 2019	FY 2020
GENERAL REVENUE			
<u>Revenue Reduction</u> - Angel Incentive Act tax credit	\$0	(Up to \$5,000,000)	(Up to \$5,000,000)
<u>Cost - DED/MTC</u>			
Personal Service	(\$36,960)	(\$44,796)	(\$45,243)
Fringe Benefits	(\$19,597)	(\$23,648)	(\$23,781)
Equipment and Expenses	<u>(\$10,846)</u>	<u>(\$4,237)</u>	<u>(\$4,343)</u>
<u>Total Cost - DED/MTC</u>	(\$67,403)	(\$72,681)	(\$73,367)
Total FTE Change - DED/MTC	1 FTE	1 FTE	1 FTE
<u>Cost - DOR computer upgrades</u>	<u>(\$65,250)</u>	<u>\$0</u>	<u>\$0</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>(\$132,653)</u>	<u>(Up to \$5,072,681)</u>	<u>(Up to \$5,073,367)</u>
Estimated FTE Change on General Revenue	1 FTE	1 FTE	1 FTE
 <u>FISCAL IMPACT - Local Government</u>	 FY 2018 (10 Mo.)	 FY 2019	 FY 2020
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

Small businesses that are eligible for the tax credit could be positively impacted. Additionally, small businesses that receive outside investments could be positively impacted.

FISCAL DESCRIPTION

This act establishes the Missouri Angel Investment Incentive Act.

For all tax years beginning on or after January 1, 2018, this act allows an investor, as defined in the act, to claim a tax credit in an amount equal to fifty percent of the investor's investment in the

FISCAL DESCRIPTION (continued)

qualified securities of a qualified Missouri business, as defined in the act. If the amount of the tax credit exceeds the investor's tax liability in any one tax year, the credit may be carried forward for up to five subsequent tax years. No investor shall receive more than fifty thousand dollars in tax credits in a single year for contributions to a single qualified Missouri business, and shall not receive more than two hundred fifty thousand dollars in tax credits in total in a single tax year. A tax credit may be transferred by a qualified investor. The total amount of tax credits issued in a single tax year by the Missouri Technology Corporation (MTC) shall not exceed five million dollars.

To be designated as a qualified Missouri business, a business shall apply to the MTC, as described in the act. The designation of a business as a qualified Missouri business shall be made annually by the MTC. In addition to other requirements described in the act, a qualified Missouri business shall not have had annual gross revenues of more than five million dollars in the most recent tax year of the business, and the business shall not have been in operation longer than five years if the business is not a bioscience business, or longer than ten years if the business is a bioscience business.

Each business that has been allocated tax credits by the MTC shall submit a report containing certain information, as described in the act, to the MTC before such tax credits are issued.

The state of Missouri shall not be held liable for any damages to an investor that makes an investment in any qualified security of a qualified Missouri business, any business that applies to be a qualified Missouri business but is turned down, or any investor that makes an investment in a business that applies to be a qualified Missouri business but is turned down.

The MTC shall annually review the activities undertaken by this act to ensure they are in compliance with the provisions of the act. If the MTC determines that a business is not in substantial compliance, it may inform the business that such business will lose its designation if it does not come into compliance within one hundred twenty days. If the business does not come into compliance, the MTC may revoke its designation. If a business loses its designation as a qualified Missouri business, it shall be precluded from being allocated any additional tax credits. However, investors in such a business shall be entitled to keep all of the tax credits properly issued prior to the loss of designation by the business.

The MTC shall report certain information annually, as described in the act, to the Department of Economic Development, the governor, the president pro tempore of the Senate, and the speaker of the House of Representatives.

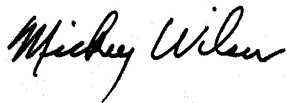
FISCAL DESCRIPTION (continued)

This act shall sunset after six years unless re-authorized by the General Assembly.

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
Office of Administration
Division of Budget and Planning



Mickey Wilson, CPA
Director
December 30, 2016

Ross Strobe
Assistant Director
December 30, 2016