

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 1668S.02C  
 Bill No.: SCS for SB 413  
 Subject: Tax Credits; Economic Development; Department of Economic Development  
 Type: Original  
 Date: March 31, 2023

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

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>				
FUND AFFECTED	FY 2024	FY 2025	FY 2026	Fully Implemented (FY 2033)
General Revenue Fund*	Up to (\$6,112,784)	Up to (\$124,688)	Up to (\$7,326,870)	Up to (\$25,944,636)
<b>Total Estimated Net Effect on General Revenue</b>	<b>Up to (\$6,112,784)</b>	<b>Up to (\$124,688)</b>	<b>Up to (\$7,326,870)</b>	<b>Up to (\$25,944,636)</b>

\*Oversight notes, for purpose of the fiscal note, the "Missouri Angel Investment Incentive Tax Credit" being utilized up to its entirety each year and 20% increase being applied continuously. Additionally, the above expenditures include the cost of DED's one (1) additional FTE.

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>				
FUND AFFECTED	FY 2024	FY 2025	FY 2026	Fully Implemented (FY 2033)
<b>Total Estimated Net Effect on Other State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: () indicate costs or losses.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>				
<b>FUND AFFECTED</b>	<b>FY 2024</b>	<b>FY 2025</b>	<b>FY 2026</b>	<b>Fully Implemented (FY 2033)</b>
<b>Total Estimated Net Effect on All Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>				
<b>FUND AFFECTED</b>	<b>FY 2024</b>	<b>FY 2025</b>	<b>FY 2026</b>	<b>Fully Implemented (FY 2033)</b>
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>\$0</b>

- Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.
- Estimated Net Effect (savings or increased revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>				
<b>FUND AFFECTED</b>	<b>FY 2024</b>	<b>FY 2025</b>	<b>FY 2026</b>	<b>Fully Implemented (FY 2033)</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

**FISCAL ANALYSIS**

**ASSUMPTION**

Officials from the **Department of Revenue (DOR)** and the **Office of Administration – Budget & Planning (B&P)** each assume the proposed legislation creates the Missouri Angel Investment Incentive Act. Beginning January 1, 2023, a tax credit shall be allowed for fifty-percent of an investor's cash investment in a qualified Missouri business. The Director of the Department of Economic Development and the Missouri Technology Corporation shall not allow tax credits of 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 annually beginning January 1, 2023, and ending December 31, 2024, and increases the cap by twenty-percent for each calendar year thereafter so long the total amount of tax credits allowed in the immediately preceding tax year was issued during the immediately preceding tax year beginning January 1, 2025 and ending December 31, 2032. The program shall automatically sunset December 31, 2032 and terminate September 1, 2033.

B&P notes that the \$6 million cap is shared between tax years 2023 and 2024. Therefore, it is possible that the full \$6 million may be authorized and redeemed for tax year 2023 (FY24) leaving no credits remaining for tax year 2024 (FY25). B&P further notes that the 20% annual increase to the tax credit cap is based on the amount of tax credits allowed in the previous year. This could result in no adjustment being allowed to the credit limit for tax year 2025 (20% x \$0 tax year 2024 credits authorized), even if the full \$6 million in credits is authorized during the combined two year (2023 and 2024) period.

The following amounts may be allowed annually until the program ends after tax year 2032:

<b>Tax Year</b>	<b>Fiscal Year</b>	<b>Range</b>	<b>Total GR Expense</b>
2023	(FY24)	Up to	\$ 6,000,000
2024	(FY25)	Up to	\$ -
2025	(FY26)	Up to	\$ 7,200,000
2026	(FY27)	Up to	\$ 8,640,000
2027	(FY28)	Up to	\$ 10,368,000
2028	(FY29)	Up to	\$ 12,441,600
2029	(FY30)	Up to	\$ 14,929,920
2030	(FY31)	Up to	\$ 17,915,904
2031	(FY32)	Up to	\$ 21,499,085
2032	(FY33)	Up to	\$ 25,798,902

Officials from the **DOR** assume the proposal will have no fiscal impact on their organization. Oversight does not have any information to the contrary. Therefore, Oversight will reflect a zero administrative impact to DOR in the fiscal note.

Officials from **Department of Economic Development (DED)** note section 348.273 creates the Missouri Angel Investment Incentive Act. The tax credit program is primarily administered by the MTC (Missouri Technology Corporation). DED's role is to process and issue tax credits.

The program requires annual qualification of a Missouri business by the Missouri Technology Corporation (MTC) to be eligible for the allocation of tax credits equal to 50% of each investor's cash investment in that business. Such tax credits shall be allocated to those qualified Missouri businesses that, as determined by MTC, are most likely to provide the greatest economic benefit to the region or the state, or both. The MTC may allocate, and the department may issue, whole or partial tax credits in accordance with the report issued to the director of the department based on MTC's assessment of the qualified Missouri businesses.

Each year, tax credits shall be reserved for equal distribution among the congressional districts and for equal distribution each quarter of the year. Any unissued tax credits each quarter become available for equal distribution among the regions, until the fourth quarter, when they can be used for any region.

Following allocation by MTC and the cash investment in a qualified security of a qualified Missouri business by an investor, the Department of Economic Development is authorized to issue tax credits to qualified investors in such qualified Missouri businesses and may issue whole or partial tax credits in accordance with MTC's assessment of the qualified Missouri businesses.

This program shall automatically sunset December 31, 2032, unless reauthorized by an act of the general assembly.

Authorizing the tax credit program will likely reduce annual TSR by up to the annual cap in the amount of \$6,000,000 for January 1, 2023 to December 31, 2024. For each tax year thereafter, the total amount of tax credits shall be increased by twenty percent, if exhausted the previous year. The balance of unissued tax credits may be carried over for issuance in future years until December 31, 2032. Qualification and award of projects will be administered by the Missouri Technology Corporation. DED will need to hire 1.0 FTE Senior Economic Development Specialist to administer the program's issuance of tax credits.

**Oversight** notes as of January 1, 2023, a tax credit shall be allowed for an investor's cash investment in the qualified securities of a qualified Missouri business.

**Oversight** notes the proposal allows for individual taxpayer to receive up to 50% of the investment amount and apply it towards his or her tax liability.

**Oversight** notes the HCS allow for investors, as specified in 32.115 subdivision (3) of subsection 2, up to 70% of the investment amount in qualified securities of a qualified Missouri Business. Businesses qualifying for the 70% of investment credits must meet one or more of the following location specifications:

- (a) An area that is not part of a standard metropolitan statistical area;
- (b) A standard metropolitan statistical area but such county has only one city, town or village which has more than fifteen thousand inhabitants; or
- (c) A standard metropolitan statistical area and a substantial number of persons in such county derive their income from agriculture.

Additionally, **Oversight** notes the HCS, specifically Section 348.473.4. (5), allows a 4% fee to be paid to Missouri Technology Corporation for purpose of the promotion of this section. **Oversight** notes the section specifies the MTC may collect such a fee, therefore, Oversight will range the impact from zero (MTC did not collect such a fee) to Unknown amount (MTC collects the fee from the qualified entities).

Lastly, **Oversight** notes the HCS provides guidance of how to appropriate the tax credits throughout the various groups and provides preferential selection procedures of awards.

**Oversight** notes the proposal does not allow tax credits of more than fifty thousand dollars for a single qualified Missouri business per investor who is a natural person, or a total of two hundred fifty thousand dollars in tax credits for a single year per investor who is a natural person or owner of a permitted entity investor.

**Oversight** notes the proposal allows for the remaining portion of the credit to be carried forward to any of the five subsequent tax years or until the total amount of the credit is used.

**Oversight** notes the DED request for one FTE (Senior Economic Development Specialist at \$74,664 annually beginning FY 2024 is plausible and will note the estimated cost in the fiscal note.

**Oversight** notes the B&P & DOR assume the 20% annual increase in the tax credit cap is based on the amount of tax credits allowed in the previous year and could result in no adjustment being allowed to the credit limit for tax year 2025 (20% x \$0 tax year 2024 credits authorized), even if the full \$6 million in credits is authorized during the combined two year (2023 and 2024) period.

Therefore, **Oversight** will note the full \$6 million implementation in FY 2024 and show zero amount of tax credit being authorized in FY 2025.

Lastly, **Oversight** will also reflect then the 20% increase in FY 2026 (from \$6 million) and note the potential in full utilization of the tax credit each year, and increases of 20% continuance thereafter until the sunset.

<u>FISCAL IMPACT – State Government</u>	FY 2024 (10 Mo.)	FY 2025	FY 2026	Fully Implemented (FY 2033)
<b>GENERAL REVENUE</b>				
<u>Cost – Section 348.273 - "Missouri Angel Investment Incentive Act Tax Credit"</u>	Up to (\$6,000,000)	\$0	Up to (\$7,200,000)	Up to (\$25,798,902)
<b>HCS - Revenue Gain – Section 348.273 4. (5) Collection of 4% Fees by MTC (may)</b>	\$0 or Up to \$240,000	\$0 or Unknown	\$0 or Up to \$288,000	\$0 or Up to \$1,031,956
<u>Costs – 1 FTE</u>				
Personnel Service	(\$62,220)	(\$76,157)	(\$77,680)	(\$89,230)
Fringe Benefits	(\$36,265)	(\$44,076)	(\$44,646)	(\$51,285)
Expense & Equipment	(\$14,299)	(\$4,455)	(\$4,544)	(\$5,219)
<u>Total Costs -</u>	<u>(\$112,784)</u>	<u>(\$124,688)</u>	<u>(\$126,870)</u>	<u>(\$145,734)</u>
FTE Change	1 FTE	1 FTE	1 FTE	1 FTE
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE</b>	<b><u>Up to</u> <u>(\$6,112,784)</u></b>	<b><u>Up to</u> <u>(\$124,688)</u></b>	<b><u>Up to</u> <u>(\$7,326,870)</u></b>	<b><u>Up to</u> <u>(\$25,944,636)</u></b>

<u>FISCAL IMPACT – Local Government</u>	FY 2024 (10 Mo.)	FY 2025	FY 2026	Fully Implemented (FY 2033)
	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>

FISCAL IMPACT – Small Business

Small businesses would be able to realize a positive fiscal impact as a result of this proposal.

FISCAL DESCRIPTION

This act establishes the Missouri Angel Investment Incentive Act.

For all tax years beginning on or after January 1, 2023, 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 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 authorized in a single tax year by the Missouri Technology Corporation (MTC) shall not exceed six million dollars for the 2023 and 2024 tax years. Thereafter, the maximum amount of tax credits that may be authorized shall be increased annually by 20%, provided that the maximum amount of tax credits was authorized in the previous year.

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.

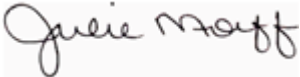
The MTC shall report certain information annually, as described in the act, to the Department of Economic Development, the Governor, the President Pro Tempore of the Senate, and the Speaker of the House of Representatives.

This act shall sunset on December 31, 2032, unless reauthorized 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 – Budget & Planning



Julie Morff  
Director  
March 31, 2023



Ross Strobe  
Assistant Director  
March 31, 2023