

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 5134-01  
Bill No.: HB 2260  
Subject: Agriculture and Animals; Revenue Department; Tax Credits; Taxation and  
Revenue - Income  
Type: Original  
Date: March 11, 2008

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Bill Summary: This proposal changes provisions relating to tax credits for qualified research expenses.

**FISCAL SUMMARY**

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

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2009</b>	<b>FY 2010</b>	<b>FY 2011</b>
<b>Total Estimated Net Effect on <u>Other</u> State Funds*</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

\* 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.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
General Revenue	1 FTE	1 FTE	1 FTE
<b>Total Estimated Net Effect on FTE</b>	<b>1</b>	<b>1</b>	<b>1</b>

☐ 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).

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
<b>Local Government*</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

**\* 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.**

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## **FISCAL ANALYSIS**

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### **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.

Officials from the **Department of Insurance, Financial Institutions and Professional Registration (DIFP)** state 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

RS:LR:OD (12/02)

## 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)
<u>Total Costs - DED</u>	(\$64,208)	(\$69,289)	(\$71,367)
FTE Change - DED	1 FTE	1 FTE	1 FTE

<u>Loss - Research Tax Credit program, cap of \$10 million annually (620.1039)</u>	\$0 to (\$10,000,000)	\$0 to (\$10,000,000)	\$0 to (\$10,000,000)
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<b>ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND</b>	<b>(\$64,208) TO (\$10,064,208)</b>	<b>(\$69,289) TO (\$10,069,289)</b>	<b>(\$71,367) TO (\$10,071,367)</b>
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Estimated Net FTE Change for General Revenue Fund	1 FTE	1 FTE	1 FTE
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**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.**

<u>FISCAL IMPACT - Local Government</u>	FY 2009 (10 Mo.)	FY 2010	FY 2011
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

### 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

RS:LR:OD (12/02)

Currently, no tax credits for qualified research expenses can be approved, awarded, or issued. This bill removes these restrictions and increases the annual aggregate cap on the amount of these tax credits that can be authorized by the Department of Economic Development from \$9.7 million to \$10 million.

The bill limits qualified research expenses to those incurred in the research and development of agricultural/biotechnology and plant genome products and for prescription pharmaceuticals consumed by humans or animals.

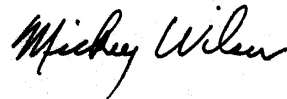
Currently, the department may issue a tax credit equal to 6.5% of the taxpayer's qualified research expenses. The bill requires that the credits be issued and that the department director act on tax credits applications filed between January 1 and July 1 for claims for the previous year between August 1 and August 15.

The bill specifies the formula by which tax credits will be issued if the eligible claims for the credits exceed the annual cap. No one taxpayer can be issued more than 30% of the total amount of tax credits authorized in any calendar year.

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



Mickey Wilson, CPA  
Director  
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