

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 4357-01  
Bill No.: HB 1616  
Subject: Agriculture and Animals; Economic Development; Tax Credits; Taxation and Revenue  
Type: Original  
Date: February 1, 2010

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Bill Summary: This proposal re-authorizes the tax credits for qualified research expenses, limits the annual credits to \$10 million, limits the qualified research activities, and specifies how the credits are to be issued.

**FISCAL SUMMARY**

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
General Revenue	(\$63,561 to (\$10,063,516)	(\$71,751 to \$10,071,751)	(\$73,903 to \$10,073,903)
<b>Total Estimated Net Effect on General Revenue Fund*</b>	<b>(\$63,561 to \$10,063,516)</b>	<b>(\$71,751 to \$10,071,751)</b>	<b>(\$73,903 to \$10,073,903)</b>

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
<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 7 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
<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 2011	FY 2012	FY 2013
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 2011	FY 2012	FY 2013
<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

### ASSUMPTION

Officials from the **Department of Economic Development (DED)** state their Business and Community Services would need for one additional FTE and related costs to administer the Qualified Research Expense Tax Credit 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 for this FTE 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. The cap for this tax credit is \$10 million so there would be a negative impact to total state revenue. However, there would be an offset of unknown positive economic benefits as a result of this increase so the exact amount of the impact cannot be determined.

DED assumes the total cost of the FTE to be roughly \$70,000 per year.

**Oversight** assumes DED's estimate of expense and equipment cost for the new FTE could be overstated. If DED is able to use existing desks, file cabinets, chairs, etc., the estimate for equipment for fiscal year 2011 could be reduced by roughly \$6,000.

Officials from the **Department of Revenue (DOR)** state to the extent tax credits are taken, this legislation would create as much as a \$10 million negative impact on Total State Revenue. DOR states their response to a proposal similar to or identical to this one in a previous session indicated the department planned to absorb the administrative costs to implement the proposal. Due to budget constraints, reduction of staff and the limitations within the department's tax systems, changes cannot be made without significant impact to the department's resources and budget. Therefore, the IT portion of the fiscal impact is estimated with a level of effort valued at \$8,904 (336 FTE hours to make programming changes to the individual income tax processing system (MINITS) and the corporate income tax processing system (COINS)).

**Oversight** assumes OA-ITSD (DOR) is provided with core funding to handle a certain amount of activity each year. Oversight assumes OA-ITSD (DOR) could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, OA-ITSD (DOR) could request funding through the appropriation process.

ASSUMPTION (continued)

In response to a similar proposal from 2009 (HB 312), officials from the **Office of Administration - Budget and Planning** 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.

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 by tax credits each year.

**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 85 percent to 106 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 95 percent of tax credits issued. Therefore, if \$10 million credits are issued, Oversight would assume \$9,500,000 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.**

<u>FISCAL IMPACT - State Government</u>	FY 2011 (10 Mo.)	FY 2012	FY 2013
<b>GENERAL REVENUE</b>			
<u>Costs - DED</u>			
Personal Service (1 FTE)	(\$35,803)	(\$44,252)	(\$45,580)
Fringe Benefits	(\$18,775)	(\$23,206)	(\$23,902)
Expense and Equipment	<u>(\$8,983)</u>	<u>(\$4,293)</u>	<u>(\$4,421)</u>
<u>Total Costs - DED</u>	(\$63,561)	(\$71,751)	(\$73,903)
FTE Change - DED	1 FTE	1 FTE	1 FTE
<u>Loss - Qualified Research tax credit</u>	\$0 to <u>(\$10,000,000)</u>	\$0 to <u>(\$10,000,000)</u>	\$0 to <u>(\$10,000,000)</u>
<b>ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND</b>	<b>(\$63,561) to <u>(\$10,063,561)</u></b>	<b>(\$71,751) to <u>(\$10,071,751)</u></b>	<b>(\$73,903) to <u>(\$10,073,903)</u></b>
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.**

<u>FISCAL IMPACT - Local Government</u>	FY 2011 (10 Mo.)	FY 2012	FY 2013
	<u><b>\$0</b></u>	<u><b>\$0</b></u>	<u><b>\$0</b></u>

FISCAL IMPACT - Small Business

Small businesses that qualify under the program could be positively impacted as a result of this proposal.

### FISCAL DESCRIPTION

Currently, no tax credits for qualified research expenses can be approved, awarded, or issued. This bill removes these restrictions and authorizes a tax credit equal to no more than 6.5% of a taxpayer's qualified research expenses. The annual aggregate cap on the amount of these tax credits that can be authorized by the Department of Economic Development is \$10 million.

Qualified research expenses will be limited to those incurred in the research and development of agricultural biotechnology, plant genomics products, diagnostic and therapeutic medical devices, and prescription pharmaceuticals consumed by humans or animals. Expenses incurred in the research, development, and manufacturing of power system technology for aerospace, space, defense, or implantable or wearable medical devices are also permitted.

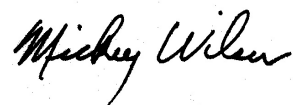
The department director may allow a taxpayer to transfer up to 40% of the tax credits issued, but not yet claimed, between January 1, 2011, and December 31, 2017. The bill requires that the department director act between August 1 and August 15 on tax credit applications filed between January 1 and July 1 for claims from the previous year.

The formula is specified 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  
Office of Administration - Budget and Planning  
Department of Insurance, Financial Institutions and Professional Registration



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