COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0169-03
Bill No.: SB 91
Subject: Economic Development; Economic Development Department; Tax Credits
Type: Original
Date: January 28, 2013

Bill Summary: This proposal reauthorizes the New Market Tax Credit and creates the Missouri Angel Investment Incentive Act.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
General Revenue *	$0 to ($10,208,410)	$0 to ($21,256,410)	$0 to ($29,376,410)
Total Estimated Net Effect on General Revenue Fund	**$0 to ($10,208,410)**	**$0 to ($21,256,410)**	**$0 to ($29,376,410)**

*** This program has an annual utilization cap that could raise the above stated revenue reductions to more than $25 million per year.**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Total Estimated Net Effect on Other 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 2014	FY 2015	FY 2016
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Total Estimated Net Effect on FTE	**0**	**0**	**0**

☒ 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 2014	FY 2015	FY 2016
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

§ 135.680 - New Markets Tax Credit

Officials at the **Office of Administration - Budget and Planning** (**BAP**) assume since FY 2011, the New Markets Tax Credit program has required annual legislative authorization (via concurrent resolution) in order to allocate benefits under the program. This proposal removes the provision calling for annual authorization and removes the sunset on this program (which is scheduled for September 4, 2013). As a result, the program would be able to operate as designated in statute, with a $25 million cap. This proposal could therefore lower General and Total State Revenues by that amount. BAP notes that in FY 2012, $21.5 million New Markets Tax Credits were issued and $15.4 million were redeemed. This proposal may encourage other economic activity, but BAP does not have data to estimate induced revenues.

Officials at the **Department of Economic Development** (**DED**) assume under Section 135.680 subsection 6, language is removed in the New Market Tax Credit which reauthorizes the program. The program is administered by the Division of Business and Community Services (BCS). The tax credit program remains capped at $25 million in any fiscal year. The remaining tax credit cap in FY 2013 is $256,310.

According to the Tax Credit Analysis submitted by the Department of Economic Development regarding this program, the New Markets tax credit program had the following activity;

	FY 2010	FY 2011	FY 20112
Certificates Issued (#)	6	12	35
Projects (#)	6	11	19
Amount Issued	$8,708,000	$14,969,000	$21,459,446
Amount Redeemed	$0	$1,199,285	$15,385,989

DED estimates the remaining cap available is $256,310 in FY 2013, $10,208,410 in FY 2014, $15,256,410 in FY 2015 and $23,376,410 in FY 2016.

Oversight assumes this credit is to sunset on September 4, 2013. This proposal extends this tax credit and therefore Oversight will reflect a loss to state revenue for credits that could be issued in FY 2014, FY 2015 and FY 2016. This tax credit has a utilization cap of $25 million. Oversight will reflect the loss of revenue to the State as $0 to the estimate provided by DED.

ASSUMPTION (continued)

Oversight assumes the changes to an existing program in this proposal would have a positive impact on the state. However, Oversight considers this to be indirect impact of the proposal and will not reflect it in the fiscal note.

§§ 348.273 and 348.274 - Missouri Angel Investment Incentive Act

Officials at **BAP** assume this part of the proposal creates the Missouri Angel Investment Incentive Act. The total amount of tax credits available for this program is $66 million, with a total of $6 million allowed annually for tax years 2014 through 2024. However, there are provisions for the balance of unissued tax credits to be carried over for issuance in future years until December 31, 2024. This proposal could therefore lower General and Total State Revenues by that amount. This program may encourage other economic activity, but BAP does not have data to estimate the induced revenues.

Officials at **DED** assume this part of the proposal creates the Missouri Angel Investment Incentive Act effective January 1, 2014. BCS would administer the tax credit issuances in coordination with the Small Business and Technology Development Center (SBTDC) offices. The program is capped at $6 million per tax year through December 31, 2024. BCS would be responsible for developing the application criteria, application, designating the tax credits to the SBTDCs, conducting an annual review of the program, and providing reports to the General Assembly and Department of Revenue. The SBTDC is responsible for approving the qualified Missouri businesses and providing activity reports to the DED.

DED requests one FTE, an Economic Development Incentive Specialist III ($41,016), to administer the Missouri Angel Investment Incentive Act. DED assumes a negative fiscal impact over $100,000 as a result of the proposal. This negative impact will be offset by an unknown positive impact as a result of the economic activity generated by the programs.

Oversight assumes that in response to similar legislation filed last year, HB 1593, DED assumed they could absorb the impact of this part of the proposal with existing resources. Therefore, Oversight assumes that DED would not need the Economic Development Incentive Specialist III.

Officials at the **Department of Revenue** (**DOR**) assume this proposal would require changes to various tax systems. These changes are estimated to cost $9,089 for 336 FTE hours. Additionally, DOR’s Personal Tax Division will need one Revenue Processing Technician I ($25,884) per 6,000 tax credits claimed.

ASSUMPTION (continued)

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

Oversight assumes DOR's Personal Tax Division could absorb the responsibilities of this tax credit with existing resources. Should DOR experience the number of additional tax credit redemptions to justify another FTE, they could seek that FTE through the appropriation process.

Officials at the **Department of Insurance, Financial Institutions and Professional Registration** assume there is no fiscal impact from this proposal.

Oversight assumes the Angel Investment Incentive Act is to begin on January 1, 2014, and therefore, the credits will not affect the State until the tax filings of FY 2015.

Oversight assumes the creation of this new program 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.

FISCAL IMPACT - State Government	FY 2014 (10 Mo.)	FY 2015	FY 2016
GENERAL REVENUE			
Revenue Reduction - § 135.680 extension of the New Markets Tax Credit *	$0 to ($10,208,410)	$0 to ($15,256,410)	$0 tp ($23,376,410)
Revenue Reduction - § 348.273 creation of Angel Investment Incentive Act	$0	$0 to ($6,000,000)	$0 to ($6,000,000)
ESTIMATED NET EFFECT ON GENERAL REVENUE	**$0 to ($10,208,410)**	**$0 to ($21,256,410)**	**$0 to ($29,376,410)**

*** This program has an annual utilization cap that could raise the above stated revenue reductions to more than $25 million per year.**

FISCAL IMPACT - Local Government	FY 2014 (10 Mo.)	FY 2015	FY 2016
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

Small businesses that qualify for these tax credits could be impacted.

FISCAL DESCRIPTION

This act creates the Missouri Angel Investment Incentive Act and modifies language relating to the New Markets tax credit.

Currently, under a provision of the New Markets tax credit program, no new equity investments may be accepted after July 1, 2010, unless the General Assembly adopts a concurrent resolution authorizing the Department of Economic Development to approve investments for the program and specifying the amount of tax credits available for the next fiscal year. This act repeals that provision, so that taxpayers may again make new equity investments in specialized financial institutions called Community Development Entities and be provided with tax credits for these investments.

The Missouri Angel Investment Incentive Act provides tax credits to investors in certain companies. The tax credit will be issued to investors equal to fifty percent of their investment in the business. The tax credits may be transferred once to an individual or carried forward up to five years. No more than six million dollars in tax credits may be allocated each tax year. Unissued tax credits will be carried over to the next year. No tax credits shall be allocated or issued after December 31, 2024. The Department of Revenue is prohibited from allowing tax credits of more than fifty thousand dollars per qualified business or more than two hundred fifty thousand dollars per investor or owner of an entity investor.

Qualified businesses allocated tax credits are required to report to the regional Small Business and Technology Development centers annually. Regional Small Business and Technology Development centers are required to report to the Department of Economic Development quarterly. The Department of Economic Development is required to report annually to the Department of Revenue, the Governor, the President pro tempore of the Senate, and the Speaker of the House of Representatives.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

JH:LR:OD

SOURCES OF INFORMATION

Department of Economic Development
Department of Insurance, Financial Institutions and Professional Registration
Department of Revenue
Office of Administration
  Budget and Planning

Ross Strope
Acting Director
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