COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5263-01
Bill No.: HB 1503
Subject: Economic Development; Tax Credits; Business and Commerce
Type: Original
Date: February 7, 2014

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

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
General Revenue	($52,678 to $6,052,678)	($60,497 to More than $6,060,497)	($61,159 to More than $6,061,159)
Total Estimated Net Effect on General Revenue Fund	**($52,678 to $6,052,678)**	**($60,497 to More than $6,060,497)**	**($61,159 to More than $6,061,159)**

Note: The fiscal note 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.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
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 2015	FY 2016	FY 2017
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
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 2015	FY 2016	FY 2017
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Office of Administration's Division of Budget and Planning** (**BAP**) assume this proposal would not fiscally impact BAP. This proposal creates the Missouri Angel Investment Incentive Act. The total amount of tax credits available for this program could reach $66 million, with a total of $6 million allowed annually for tax years 2014 to 2024. There are provisions for the balance of annually unissued tax credits to be carried over for issuance in future years until the end of the program (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. The Department of Economic Development may have such an estimate.

Officials at the **Department of Economic Development** (**DED**) assume the proposal creates the Missouri Angel Investment Incentive Act to be administered by the Missouri Technology Corporation (MTC). MTC would create and administer guidelines for the program, accept and approve applications, and also conduct compliance.

DED assumes MTC would require 1.5 FTE to create guidelines, accept applications and overall administration of the program. One FTE would be an Economic Development Specialist II and .5 FTE would be an Administrative Office Support Assistant.

DED assumes a negative impact ranging from $0 to $6 million, which would be offset by an unknown positive economic benefit based on the increase in economic activity.

Oversight assumes the MTC would need one Economic Development Specialist II for administration of this program; however, they could absorb the duties of the Administrative Office Support Assistant.

Officials at the **Department of Revenue** (**DOR**) assumed this proposal would require changes to various tax systems. These changes are estimated to cost $22,932 for 840 FTE hours. Additionally, DOR's Personal Tax Division will need two Revenue Processing Technicians I for processing credits claimed and increased. DOR's Corporate Tax Division will need one Revenue Processing Technician I to redeem tax credits, one Revenue Processing Technician I for tax credit transfers and one Revenue Processing Technician I for compliance mailings and correspondence.

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/Corporate Tax Divisions 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 **University of Missouri** assume there is no fiscal impact from this proposal.

Officials from the **Department of Insurance, Financial Institutions and Professional Registration (DIFP)** state an unknown reduction of premium tax revenues as a result of the establishment of the Missouri Angel Incentive Act is possible. 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 throughout 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.

DIFP will require minimal contract computer programming to add this new tax credit to the premium tax database and can do so under existing appropriation. However, should multiple bills pass that would require additional updates to the premium tax database, the department may need to request more expense and equipment appropriation through the budget process.

Oversight assumes the Angel Investment Incentive Act is to begin on January 1, 2014, and therefore, the credits will affect the State beginning FY 2015. Oversight assumes this proposal allows any credits not issued in a year to be carried forward to the next fiscal year. Oversight will show the impact of this proposal as $0 (no credits issued) to $6 million in the first year and More than $6 million each year thereafter.

FISCAL IMPACT - State Government	FY 2015 (10 Mo.)	FY 2016	FY 2017
GENERAL REVENUE			
Revenue Reduction - Missouri Angel Investment Incentive tax credit	$0 to ($6,000,000)	$0 to (More than $6,000,000)	$0 to (More than $6,000,000)
Cost - Missouri Technology Corporation - for FTE and expenses to administer the tax credit	($52,678)	($60,497)	($61,159)
ESTIMATED NET EFFECT ON GENERAL REVENUE	**($52,678 to $6,052,678)**	**($60,497 to More than $6,060,497)**	**($61,159 to More than $6,061,159)**

Note: The fiscal note 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.

FISCAL IMPACT - Local Government	FY 2015 (10 Mo.)	FY 2016	FY 2017
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

Small businesses that receive the credit or are invested in because of the program, may be impacted.

FISCAL DESCRIPTION

This bill establishes the Missouri Angel Investment Incentive Act that is to be administered by the Missouri Technology Corporation. The primary goal of the act is to encourage individuals to provide early-stage financing for emerging qualified knowledge-based companies in Missouri through the issuance of tax credits to qualified investors who make cash investments for the financing. The corporation must review applications from businesses requesting designation as a qualified Missouri business and allocate tax credits to qualified investors who make cash investments in the qualified Missouri business. The Department of Economic Development must establish its own rules of procedure, including the form and substance of applications to be used by the corporation and the criteria it must consider when evaluating a qualified Missouri business and issue tax credits to qualified investors that have been allocated available tax credits by the corporation.

A tax credit must be allowed for an investor's cash investment in the qualified securities of a qualified Missouri business. The credit must be equal to 50% of the investor's cash investment in any qualified Missouri business. This tax credit may be used in its entirety in the taxable year in which the cash investment is made except that no tax credit can be allowed in a year prior to 2014. If the credit amount allowed exceeds the investor's liability in any one taxable year, beginning in 2014, the remaining portion of the credit may be carried forward five years or until the total amount of the credit is used, whichever occurs first. If the investor is a permitted entity investor, the credit must be claimed by the owners of the permitted entity investor in proportion to their equity investment in the permitted entity investor. The department and the corporation cannot issue tax credits of more than $50,000 in a single year to an investor per investment into a single, qualified Missouri business per investor or for tax credits totaling more than $250,000 for a single year per investor who is a natural person or owner of a permitted entity investor. A tax credit cannot be allowed for any cash investments in qualified securities made in any year beginning after December 31, 2024. The total amount of tax credits that can be allowed cannot exceed $6 million in any fiscal year. The balance of unissued tax credits may be carried over for issuance in future years until December 31, 2024.

The provisions of the bill expire December 31, 2024.

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
Division of Budget and Planning
University of Missouri

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Director
February 7, 2014

Ross Strope
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February 7, 2014

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