COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5267-02
Bill No.: HB 1511
Subject: Tax Credits; Economic Development; Department of Economic Development
Type: Original
Date: February 6, 2014

Bill Summary: This proposal authorizes a tax credit for qualified research expenses, limits the annual total 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 2015	FY 2016	FY 2017
General Revenue	$0 to ($10,000,000)	$0 to ($10,000,000)	$0 to ($10,000,000)
Total Estimated Net Effect on General Revenue Fund	**$0 to ($10,000,000)**	**$0 to ($10,000,000)**	**$0 to ($10,000,000)**

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 6 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 reauthorizes a tax credit for qualified research expenses, which expired in 2005. The program is authorized to issue up to $10 million dollars annually in tax credits. This proposal could therefore lower General and Total State Revenues by that amount.

Officials at the **Department of Economic Development** (**DED**) assume this proposal reauthorizes §620.1039, a tax credit up to six and one-half percent of the excess of the taxpayer's qualified research expenses over three years. The annual amount of tax credits allowed under this section is $10 million. The program sunsets December 31, 2021. DED assumes a negative impact ranging from $0 - $10 million offset by any positive impact generated from increases in economic activity generated. DED also requests one additional FTE (Economic Development Incentive Specialist III) to implement this program.

It is unclear how many taxpayers would be eligible for this credit; therefore, **Oversight** assumes DED would be able to absorb the work of this credit with existing FTE. Should the number of applicants reach the number where additional FTE would be needed, DED could request the FTE through the appropriation process.

Officials at the **Department of Revenue** and the **Joint Committee on Administrative Rules** each assume there is no fiscal impact to their respective agencies 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 increase of the annual limit of the qualified research tax credit 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.

ASSUMPTION (continued)

Officials from the **Office of the Secretary of State (SOS)** state many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the SOS for Administrative Rules is less than $2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, the SOS also recognizes that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what the office can sustain with the core budget. Therefore, the SOS reserves the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process.

Oversight assumes this proposal originally expired on December 31, 2004. This proposal restarts the tax credit and changes the cap to $10 million annually. Oversight will reflect a loss of revenue to the State as $0 (no additional credits issued) to the annual cap.

Oversight assumes the creation of this new program outlined in this proposal 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 2015 (10 Mo.)	FY 2016	FY 2017
GENERAL REVENUE			
Revenue Reduction - extension of the qualified research tax credit	$0 to ($10,000,000)	$0 to ($10,000,000)	$0 to ($10,000,000)
ESTIMATED NET EFFECT ON GENERAL REVENUE	**$0 to ($10,000,000)**	**$0 to ($10,000,000)**	**$0 to ($10,000,000)**

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.

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

FISCAL IMPACT - Small Business

Small businesses that qualify for the credit may be impacted.

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 of up to 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, or prescription pharmaceuticals consumed by humans or animals. Expenses incurred in the research, development, or manufacture 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, 2015, and December 31, 2021. The department director must 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.

The provisions of this bill and all referenced sections are subject to the provisions of §196.1127.

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

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SOURCES OF INFORMATION

Department of Economic Development
Department of Insurance, Financial Institutions and Professional Registration
Department of Revenue
Joint Committee on Administrative Rules
Office of Administration
Division of Budget and Planning
Office of the Secretary of State

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