LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 759** HLS 09RS 1018
Bill Text Version: **RE-REENGROSSED**
Opp. Chamb. Action: **w/ SEN COMM AMD**
Proposed Amd.:
Sub. Bill For.:

Date: June 17, 2009 12:04 PM
Author: GREENE
Dept./Agy.: Economic Development
Subject: Tax Credits For Venture Capital Risk
Analyst: Greg Albrecht

TAX CREDITS RR1 SEE FISC NOTE GF RV See Note

Creates the Venture Fund Tax Credit Program to promote investment in early-stage technology companies

Provides refundable tax credits, against any Louisiana income tax, to LA public retirement systems and public or private university & college endowments that realize losses from investments in venture capital firms. The Department of Economic Development (LED) certifies the eligible venture capital firms, the investments in those firms that are eligible for tax credits, the losses incurred, issues tax credit certificates, and submits the certificates to the Department of Revenue for payment to the systems or endowments from current tax collections. Losses generating tax credits can not be recognized until five years after the initial investment in the venture capital firm. Tax credits granted are based on the size of the loss: 100% of losses up to $3 million, 80% of losses between $3 million and $6 million, and 60% of losses over $6 million; with no more than 50% of an investment eligible for tax credits. In no case shall the Department of Revenue make payments in a single calendar year that total more than $20 million per year.

EXPENDITURES	**2009-10**	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**5 -YEAR TOTAL**
State Gen. Fd.	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	$0	$0	$0	$0	$0	**$0**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**

REVENUES	**2009-10**	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**5 -YEAR TOTAL**
State Gen. Fd.	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	$0	$0	$0	$0	$0	**$0**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**

EXPENDITURE EXPLANATION

LED originally indicated the need for an additional staff position dedicated to the tasks of this program: certifying eligible venture capital firms, investments in those firms eligible for tax credits, monitoring performance of investments, certifying any losses incurred, and issuing any tax credits. LED has since reversed that position. Given the fiduciary nature of pensions and endowments, and the magnitude of state revenue loss exposure at stake, a staff position dedicated to this program may be reasonable to expect. Should that become necessary, costs would start at around $80,000 per year and grow over time.

REVENUE EXPLANATION

The bill exposes the state to portions of potential investment losses of public retirement systems and university & college endowments, to the extent these entities participate in the program and to the extent they suffer losses on their participating investments; both of which are speculative and can not be determined in advance. However, venture capital investments presumably involve more risk than other types of investment and some losses are likely to occur.

There is no near-term exposure to the state since the bill requires that losses be recognized five years after the initial investment by systems/endowments in the venture capital firms. When investment losses occur, any state revenue losses, through tax credits issued, will be realized outside the fiscal note horizon.

The state's exposure is somewhat limited by constraints on the amount of system/endowment investment eligible for tax credits (50%), and the declining percentage of loss covered by tax credits; although, at a minimum 60% of losses over $6 million are covered by tax credits. While the maximum amount of payments (refundable tax credits) the Department of Revenue can make in a single calendar year is $20 million per year. Since these credits are refundable it is unlikely a material amount of issued credits will go unrealized.

Senate	Dual Referral Rules	House
☐ 13.5.1 >= $500,000 Annual Fiscal Cost		☐ 6.8(F) >= $500,000 Annual Fiscal Cost
☐ 13.5.2 >= $500,000 Annual Tax or Fee Change		☐ 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease

H. Gordon Monk

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