LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **SB 500** SLS 10RS 855
Bill Text Version: **ORIGINAL**
Opp. Chamb. Action:

Proposed Amd.:
Sub. Bill For.:

Date:	April 10, 2010 9:21 AM	**Author:**	MARIONNEAUX
Dept./Agy.:	Economic Development / Revenue		
Subject:	Continue Angel Investor Benefits With Tax Rebates	**Analyst:**	Greg Albrecht

TAX/TAXATION OR DECREASE GF RV See Note

Authorizes the Department of Economic Development to grant up to $5 million of rebates per calendar year at the rate of 35% of an investor's investment in "Louisiana Entrepreneurial Business," not to exceed $1 million per year per business and

Current law offered benefits to investors in qualifying entrepreneurial businesses. Various conditions had to be met by the investor/investment and the participating business. Investor benefits were received through refundable tax credits of 50% of the investment, disbursed evenly over five years. Total benefits granted each year could not exceed $5 million per year. No benefits could be granted after December 31, 2009.

Proposed law permanently continues the program with investor benefits received through rebate payments of 35% of the investment, disbursed evenly over five years. Total benefits granted each year are capped for individual investors at $5 million per year but are not capped for pools of investors. Benefits not granted in a year can be granted in subsequent years without limitation. Benefits shall be allowed for investments made after January 1, 2010, with no program expiration date provided. Effective upon governor's signature.

EXPENDITURES	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**5 -YEAR TOTAL**
State Gen. Fd.	$0	$0	$0	$0	$0	**$0**
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	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**5 -YEAR TOTAL**
State Gen. Fd.	DECREASE	DECREASE	DECREASE	DECREASE	DECREASE	
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

The Department of Economic Development indicated the need for an additional staff person and support expenses, totaling some $80,000 per year. However, the tax credit version of the program has been administered by the department since 2005, and new participation in the program was only prohibited as of December 31, 2009. It seems unnecessary to provide additional administrative resources for what is essentially the continuation of an existing program.

REVENUE EXPLANATION

Based on experience with the program over the 2005 - 2009 period, the Department of Economic Development (LED) expects participation in the 35% rebate version of the program in this bill to meet or exceed participation in the 50% tax credit version of the program (the previous version was oversubscribed to point that the effective tax credit benefit rate was 32% in 2008 and 27% in 2009 rather than 50%). Thus, if the 35% rebate version in this bill were limited to $5 million of total annual benefits granted and then each year's benefit grants were disbursed evenly over five years, a simple picture of state revenue exposure could be considered: FY11 $1 million, FY12 $2 million, FY13 $3 million, FY14 $5 million, FY15 $5 million, and then each subsequent year's exposure stabilizes at $5 million per year (there is no expiration of this version of the program).

However, the bill caps annual program benefit amounts at $5 million only for individual investors, but investor pools face no annual program benefit cap. Thus, if investors participate in the program through pools of resources the State's revenue loss exposure is unlimited.

LED provided projections of minimum rebate exposure based on fairly conservative assumptions about participation in this rebate version of the program (start with 25% less investment than in 2010 and grow by only 3% per year - well below growth of the tax credit version of the program) that resulted in about $1.5 million of exposure in FY11, growing to nearly $7 million by FY15. Exposure would grow in each subsequent year since there is no expiration of this version of the program. With effectively no program benefit cap, though, benefit exposure could be substantially greater than these estimates.

It should be noted that annual realizations of benefits can lag behind annual benefit exposure levels, so that actual revenue losses in any particular year can be less than the potential revenue loss (for the first four years of the program cumulative realizations have been 53% of cumulative benefit exposure). However, this may be more likely when benefits are provided through tax credits since benefits are received only when tax returns are filed. With benefits provided through rebate payments, benefit realizations would presumably occur as participation paperwork is continually processed. This may work to more closely align annual benefit realizations (state revenue losses) with annual benefit exposure.

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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Legislative Fiscal Officer