

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **HB 300** HLS 17RS 966
 Bill Text Version: **ENROLLED**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.:

Date: June 7, 2017 5:53 PM	Author: DAVIS
Dept./Agy.: Economic Development	Analyst: Greg Albrecht
Subject: Research & Development Tax Credit	

TAX CREDITS EN +\$300,000 GF RV See Note Page 1 of 1
 Provides relative to the amount of the research and development tax credit and authorizes transferability of the credit under certain circumstances

Proposed law extends the R&D tax credit program by two years to December 31, 2021 (from 2019) and modifies the program by restoring the refundability of credits in FY19 (tax year 2018) for firms receiving credits on the basis of their federal Small Business Innovation Research (SBIR) award or federal Small Business Technology Transfer Program (STTR) grant (made nonrefundable for all participants in 2015). Alters the credit rates available to 30% for SBIR/STTR firms (formerly 40%), 30% for firms with less than 50 employees (formerly 40%), 10% for firms 50 to 100 employees (formerly 20%), and 5% for firms with more than 100 employees (formerly 8%). Firms with less than 50 employees will now be subject to base amount of expenditures above which qualifies for credits (formerly no base spending threshold was imposed on these firms), and firms with more than 50 employees will be subject to an 80% base amount spending threshold (formerly 70%). Applicable to tax years beginning on and after January 1, 2017.

EXPENDITURES	2017-18	2018-19	2019-20	2020-21	2021-22	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	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	\$0
Annual Total	\$0	\$0	\$0	\$0	\$0	\$0

REVENUES	2017-18	2018-19	2019-20	2020-21	2021-22	5 -YEAR TOTAL
State Gen. Fd.	\$300,000	(\$200,000)	\$200,000	\$900,000	\$900,000	\$2,100,000
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	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	\$0
Annual Total	\$300,000	(\$200,000)	\$200,000	\$900,000	\$900,000	\$2,100,000

EXPENDITURE EXPLANATION

There is no anticipated direct material effect on governmental expenditures as a result of this measure.

REVENUE EXPLANATION

The Dept. of Economic Development estimated the likely fiscal effect of the modifications proposed by this bill utilizing data on the companies currently participating in the program. Assuming this mix of firms is representative of future participation in the program, other than the refundability provision for SBIR/STTR firms, the modifications appear to work to reduce program credit costs from the possible current baseline of some \$4.7 million per year (the FY16 credit cost after the change to nonrefundability of credits in 2015).

Restoring refundability to the credits given to SBIR/STTR firms, even at the reduced rate of 30% rather than 40%, likely increases program costs by \$1.8 million per year. Being applicable to tax year 2018, the additional costs are likely to be realized against the state fisc as early as FY19. Lowering the credit rates and requiring smaller firms to exceed a base spending threshold for credits to apply all work to reduce program credit costs by some \$2.7 million per year.

According to the Dept. it will take four years for firms participating in the program under its current parameters to work through the program, while new entrants with lower associated costs accumulate in the program. Thus, net cost benefits of the bill's modifications build up over time, and are estimated by LED as depicted in the table above. Cost benefits stabilize at \$900,000 per year by FY21, as all program participants at that time are participating under the parameters of this bill (\$1.8M of additional costs are offset by \$2.7M of additional savings).

A \$200 per transfer fee is imposed to help defray the costs of the transferable credit registry. This may generate a relatively small amount of self-generated revenue depending upon the number of credit transfers. However, the credits for SBIR/STTR participants are being made refundable by the bill, which should work to minimize the transfer of credits.

Senate
 13.5.1 >= \$100,000 Annual Fiscal Cost {S&H}
 13.5.2 >= \$500,000 Annual Tax or Fee Change {S&H}

House
 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S}
 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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