LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **SB 99** SLS 11RS 352
Bill Text Version: **ENGROSSED**
Opp. Chamb. Action:
Proposed Amd.: **W/ PROP SEN FLOOR AMD**
Sub. Bill For.:

Date: May 18, 2011 12:31 PM
Author: MORRELL
Dept./Agy.: Revenue
Subject: New Markets Tax Credit Program
Analyst: Greg Albrecht

TAX/TAXATION EG -$30,000,000 GF RV See Note

Authorizes the issuance of $37.5 million more New Market Tax Credits and extends the period tax credits are allowed from ending on December 31, 2013 to an indefinite period if the qualified equity investment is issued prior to December 31, 2014.

Current law provides state income and franchise tax credits for investments in Community Development Entities (CDEs) organized to participate in the federal New Markets Tax Credit Program. Tax credits are 25% of the investment in a CDE that are used to make subsequent investments in qualified businesses in the state. Credits are nonrefundable but transferable. In the last two revisions of the program, a total of $100 million of tax credits have been issued.

Proposed law provides another $30 million of aggregate tax credit over the life of the program, but restricts the amounts of that additional aggregate credit that can be issued in each of two years: $15 is available on September 1, 2011, and $15 million is available on September 1, 2012. Credits issued on September 1, 2011 can be claimed on returns due in 2015 (FY15), and credits issued on September 1, 2012 can be claimed on returns due in 2016 (FY16).

EXPENDITURES	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**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	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**5 -YEAR TOTAL**
State Gen. Fd.	$0	$0	$0	($15,000,000)	($15,000,000)	**($30,000,000)**
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	$0	$0	$0	$0	$0	**$0**
Annual Total	**$0**	**$0**	**$0**	**($15,000,000)**	**($15,000,000)**	**($30,000,000)**

EXPENDITURE EXPLANATION

In the past the Department of Revenue has devoted a full-time position to administer this program. It seems unlikely that the changes made by this bill would require additional resources. However, with this bill there will effectively be four programs being administered simultaneously, with four different sets of program parameters, at least with respect to the program's tax credits.

REVENUE EXPLANATION

Total tax credits generated under the pre-2007 program were $24.4 million over a 9 year period. In two revisions of the program since then, two additional $50 million allocations of tax credits were fully subscribed. It seems likely that the additional $30 million of tax credits made available by this bill will be fully subscribed, as well. The bill limits the amount of of this additional tax credit allocation that can issued in two periods: $15 million on September 1, 2011, and $15 million on September 1, 2012, and provides that each of these two issuances can first be claimed on tax returns due in 2015 ($15 million allocation) and in 2016 ($15 million allocation), respectively. Thus, state revenue loss exposure appears to start in FY15 with $15 million and in FY16 with an additional $15 million.

However, while data limitations do not allow for analysis that ties specific credit amounts issued to specific credit amounts realized, the credits issued under this program have exhibited a lag in actually being realized against liabilities. With $100 million of credits issued since the program was substantially modified after 2007, actual realizations against tax liabilities have totaled $51.2 million in FY08 - FY11 to date ($816,000 FY08, $6.8 million FY09, $16.1 million FY10, and $27.5 million FY11 to date). Thus, the table above depicts maximum loss exposure in FY15 and FY16. Actual revenue losses resulting from the bill will likely be less in each of those years and extend into FY17 - FY18, and possibly beyond.

Senate	Dual Referral Rules	House
☐ 13.5.1 >= $100,000 Annual Fiscal Cost {S&H}		☐ 6.8(F)1 >= $500,000 Annual Fiscal Cost {S} 6.8(F)2 >= $100,000 Annual SGF Cost {H&S}
☒ 13.5.2 >= $500,000 Annual Tax or Fee Change {S&H}		☐ 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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