LEGISLATIVE FISCAL OFFICE
Fiscal Note

Louisiana Legislative Fiscal Office Fiscal Notes

Fiscal Note On: **SB 135** SLS 11RS 196

Bill Text Version: **REENGROSSED**

Opp. Chamb. Action:

Proposed Amd.:

Sub. Bill For.:

Date: May 22, 2011 12:35 PM **Author:** CLAITOR

Dept./Agy.: Revenue/Economic Development

Subject: R&D credit calculation changes and earlier sunset **Analyst:** Deborah Vivien

TAX/TAXATION RE INCREASE GF RV See Note

Extends the research and development tax credit program from December 31, 2013 to December 31, 2019; changes it from a refundable and transferable credit to a "rebate"; authorizes the rebate for the employment of any persons in Louisiana

Current law provides a refundable and transferable tax credit for companies claiming the federal research and development (R&D) tax credit, incurring qualified research expenses, or receiving a Small Business Innovation Research (SBIR) grant. The credit is a percentage of either qualifying or new research expenditures depending on SBIR grant status, the number of Louisiana residents employed, or participation in the federal alternative incremental tax credit. The base amount is defined in 26 USC 41(c), which is the calculation used in the federal R&D tax credit, apportioned to the state. The program expires on December 31, 2013. Proposed law ends the program on June 30, 2013, and makes changes to rebate determination, including a new base calculation, counting employees of all affiliated companies instead of just those in Louisiana, adding LED audit authority, and prohibiting multiple benefits. The credit for those claiming the alternative incremental tax credit is repealed. Proposed law also changes the credit to a rebate. Applicable to rebates earned and granted on or after January 1, 2011, but all credits earned and granted prior to signing of the law will be governed by current law.

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.	$6,300,000	$7,300,000	$20,000,000	$1,400,000	$1,400,000	**$36,400,000**
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	**$6,300,000**	**$7,300,000**	**$20,000,000**	**$1,400,000**	**$1,400,000**	**$36,400,000**

EXPENDITURE EXPLANATION

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

REVENUE EXPLANATION

The proposed legislation ends the program six months earlier than the current expiration date of December 31, 2013, and makes several material changes to the parameters of the program which would become effective prior to the expiration. According to the Department of Revenue, claims of this credit have grown by 97% between FY 08 and FY 09 to $14.6 million and by 23% from FY 09 to FY 10 to $17.9 million. The analysis below assumes that 20% annual growth continues throughout the life of the program. In general, the first year impact of ending the program six months earlier occurs in FY 13/14 with a half year impact of adding $18.6 million to SGF revenue. The changes to the parameters of the program will become effective with all credits earned after 1/1/11. Those impacts begin in FY 11/12 with an increase in SGF revenue as new restrictions in the parameters of the program lead to fewer rebates being issued.

There are several components of the bill that could impact state general fund including a recalculation of the base upon which the rebate is calculated, the repeal of the Alternative Incremental Tax Credit bracket, and expanding the employee count to all affiliates in order to determine whether the business qualifies for a certain rate from which to calculate the rebate (rate structure is 8% of increased R&D expenditures for those employing 100 or more, 20% of increased R&D expenditures for those employing 50-99, and 40% of total R&D expenditures for those employing less than 50). As a mathematical exercise, each component was considered separately in formulating this analysis. While the analysis makes use of as much actual data as possible, the bill makes changes to a number of parameters that are material to the program's fiscal results, and various assumptions are necessary to arrive at conclusions. Thus, a high degree of confidence can not be assigned to the specific values of the results.

Senate — Dual Referral Rules — House

- [ ] 13.5.1 >= $100,000 Annual Fiscal Cost {S&H}
- [x] 13.5.2 >= $500,000 Annual Tax or Fee Change {S&H}
- [ ] 6.8(F)1 >= $500,000 Annual Fiscal Cost {S}
  6.8(F)2 >= $100,000 Annual SGF Cost {H&S}
- [x] 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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