LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 629** HLS 11RS 1264
Bill Text Version: **ENGROSSED**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: June 8, 2011 8:58 AM
Author: ELLINGTON
Dept./Agy.: Economic Development / Insurance
Subject: Premium Tax Credit For Investment In LEAD Funds
Analyst: Greg Albrecht

TAX CREDITS EG -$37,500,000 GF RV See Note

Creates the Louisiana Entrepreneurial Assistance and Development (LEAD) Program for tax credits for venture capital investments

Provides premium tax credits for insurers that invest in (provide eligible capital to) LEAD Funds (Louisiana Entrepreneurial Assistance and Development Funds). The credit is 75% of the amount invested. Credits can be taken against liabilities over a four-year period (up to 25% of the credit amount per year), but can not exceed the premium tax liability for any particular year. Credits can not be taken until the 3rd year after the year when the investment in the LEAD Fund occurs, and can not be taken until after April 15, 2015. Credits are transferable among insurance companies, and unused credit amounts can be carried forward indefinitely. A maximum of $200 million of eligible capital is allowed into the program, generating a total of $150 million of premium tax credits. The Department of Economic Development (LED) administers the program; making eligible capital allocations to insurers and assuring compliance by participating LEAD Funds with respect to their operations and the investments they make in eligible businesses. LEAD Funds pay a non-refundable $7,500 application fee.

EXPENDITURES	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**5 -YEAR TOTAL**
State Gen. Fd.	$86,000	$88,000	$139,000	$95,000	$99,000	**$507,000**
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	**$86,000**	**$88,000**	**$139,000**	**$95,000**	**$99,000**	**$507,000**

REVENUES	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**5 -YEAR TOTAL**
State Gen. Fd.	$0	$0	$0	($37,500,000)	($37,500,000)	**($75,000,000)**
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**	**($37,500,000)**	**($37,500,000)**	**($75,000,000)**

EXPENDITURE EXPLANATION

The Department of Insurance indicated that it would need to incur some costs associated with reprogramming computer systems to insure proper tracking of the bill's premium tax credits. The Department reported one-time costs over $48,000, but would not need to incur these costs until sometime in FY14.

The Department of Economic Development would have to administer the program, and reports the need for an additional staff person to carry out the activities necessary for the program. These activities include developing program rules and regulations, reviewing applications from LEAD funds for certification, allocating eligible capital and tax credits, approving LEAD fund investments in eligible businesses, insuring requirements for annual maintenance of certification and distributions are met, and providing program reporting. Payroll, operating expenses, and one-time equipping could be $86,000 in FY12 (program must be functional by November 1, 2011), with projected 4% growth after that. Application fees would offset some of this cost in FY12.

REVENUE EXPLANATION

The bill allows $200 million of capital from insurance companies into an investment program, where ultimately 3/4 of the capital is provided by the state general fund through premium tax credits. The realization of these tax credits is delayed until FY15 and then spread evenly over four years. Based on experience with a similar program that has been closed for a number of years (CAPCO), the program is likely to be fully subscribed shortly after LED begins accepting applications for certifying LEAD funds and allocations of capital and tax credits (no later than November 1, 2011 as required by the bill). Unused credit amounts can be carried forward indefinitely, but can also be transferred to other insurance companies with sufficient premium tax liabilities to exhaust the credits. Thus, each year's maximum annual exposure is depicted in the table above and is likely to be close to what actual realizations will be each year. Total premium tax revenue reductions resulting from this bill are $150 million, with annual reductions of $37.5 million in years FY15 - FY18.

Senate Dual Referral Rules House

☐ 13.5.1 >= $100,000 Annual Fiscal Cost {S&H}
☒ 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}
☐ 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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