LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 597** HLS 11RS 1007
Bill Text Version: **ENROLLED**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: June 28, 2011 10:10 AM
Author: JACKSON, MICHAEL
Dept./Agy.: Economic Development / Revenue
Subject: Continue Angel Investor Benefits With Direct Payments
Analyst: Greg Albrecht

TAX CREDITS EN -$20,000,000 GF RV See Note

Converts the Angel Investor Tax Credit Program to the Angel Investor Rebate Program and provides for the rebate program

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 nonrefundable, but transferable, tax credits of 35% of the investment, allowed evenly over five years. The first year amount is deductible from tax liability in the income tax year which occurs 24 months after the first investment is certified, with subsequent amounts deductible each year thereafter. Total benefits granted each year can not exceed $5 million. Benefits not granted in a year can be granted in subsequent years without limitation. Benefits shall be allowed for investments made after January 1, 2011, with program provisions terminated on July 1, 2015. A four fiscal year program window allows $20 million of tax credits to be disbursed.

EXPENDITURES	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**5 -YEAR TOTAL**
State Gen. Fd.	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	
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	($1,000,000)	($2,000,000)	($3,000,000)	**($6,000,000)**
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**	**($1,000,000)**	**($2,000,000)**	**($3,000,000)**	**($6,000,000)**

EXPENDITURE EXPLANATION

The Department of Economic Development administers the existing program, but new capital has not been allowed into the program since 2009. Re-opening the program may require additional resources to oversee a program with two different sets of parameters operating simultaneously. In the past, LED has indicated that the level of staff person necessary to oversee such programs can involve $80,000 - $90,000 per year of expense.

REVENUE EXPLANATION

Based on experience with the program over the 2005 - 2009 period, the Department of Economic Development (LED) indicated, in analysis on a similar bill in 2010, that it expected participation in a 35% rebate version of the program to meet or exceed participation in the previous 50% refundable tax credit version of the program. The previous version of the program was oversubscribed to the point that the effective tax credit benefit rate was 32% in 2008 and 27% in 2009 rather than 50%. Thus, if a 35% rebate version were limited to $5 million of total annual benefits granted, and then each year's benefit grants were disbursed evenly over five years (first payable 24 months later, then annually after that), and considering the four fiscal year life of the revived program (FY12 - FY15) a simple picture of state revenue exposure could be considered: FY14 $1 million, FY15 $2 million, FY16 $3 million, FY17 $4 million, FY18 $4 million, FY19 $3 million, FY20 $2 million, and FY21 $1 million. A total of $20 million of tax credits are allowed to be disbursed under this revision of the program.

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 five years of the program, 2005 - 2009, $22 million of total tax credits were awarded but through FY11 to date only $9.4 million of these credits have been taken. However, annual credit realizations have been approaching annual credit exposure, with 55% to 58% of exposure realized in 2008 and 2009, and 72% realized in 2010. With a transferrable tax credit program this lag between realizations and exposure could narrow even more, making the exposure estimates above a reasonable expectation.

However, the current version of the bill revives the program as a nonrefundable tax credit, with transferability of credits allowed, rather than the previous refundable credit version or the rebate version originally proposed by this bill. It is uncertain if investors will be as willing to participate in the program under that condition (annual tax benefits received only up to the amount of annual tax liability, with transferability of used credit amounts, rather than 100% of annual benefits received regardless of annual tax liability) as they did under the previous version of the program. The estimates depicted above, though, still represent the state revenue loss exposure.

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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