LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 481** HLS 15RS 603
Bill Text Version: **ORIGINAL**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: May 11, 2015 6:04 AM **Author:** MORRIS, JAY
Dept./Agy.: Revenue/Economic Development
Subject: Decreases then ends the EZ and QJ investment credits **Analyst:** Deborah Vivien

TAX CREDITS OR INCREASE GF RV See Note

Reduces the amount of the refundable investment income tax credit authorized under the enterprise zone program, imposes an annual limit on the total value of tax credits which may be approved, and sunsets the tax credit

Current law provides a payment of 1.5% of project expenditures (refundable tax credit with no cap treated as a rebate payment) under the Enterprise Zone and Quality Jobs programs. The Quality Jobs program sunsets on 1/1/18.

Proposed law decreases the EZ and QJ investment credit from 1.5% to 1% of project expenditures and sunsets the EZ investment credit on December 31,2019. The total investment credit including both programs is also capped at $10M per fiscal year as accounted in LED issued project completion reports. Once the cap is reached, no project completion reports will be executed until the next fiscal year. The project has 6 months after the report execution to file the final application to claim the credit. Effective for projects entering into contracts on or after 7/1/15.

EXPENDITURES	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**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	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**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						

EXPENDITURE EXPLANATION

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

REVENUE EXPLANATION

This bill reduces and caps the investment credit of the Enterprise Zones and Quality Jobs programs by 1/3 from 1.5% of qualified expenditures to 1% of the same base expenditures. The bill sunsets the investment credit for EZ on 12/31/19 while the investment credit on the QJ program expires under current law on 1/1/18. In FY 14, these investment credits were about $60M annually, accounting for about half of the total costs of both programs or $120M. The bill does not change the sales tax rebate, which projects may opt into instead of the investment credit. To the extent that projects that are limited by the investment credit cap opt into the sales tax rebate, projected savings may not materialize.

The analysis considers 2 responses to the bill. First, new projects will respond to the reduction in the investment credit by either claiming a 1/3 smaller credit or opting for the sales tax credit. If the same mix of projects choose the investment credit that is reduced by 1/3, program costs will be reduced by roughly $3.6M in FY 16, $7.2M in FY 17, $11.2M in FY 18, $13.6M in FY 19 and $15.4M in FY 20. However, to the extent that project instead opt for the sales tax credit, savings will be offset, though probably not on a one-to-one basis.

In addition, the aggregate of projects will be subject to a $10M per FY cap on project completion reports issued for the investment credit, which would limit investment credit activity on new projects. However, projects with an approved project completion report would still be allowed to claim credits above the cap for the first 6 months of FY 16. Aside from the grandfathered investment credits, all credits in excess of $10M would be ineligible during FY 16, whether they were related to old or new projects since the cap limits the issuance of any project completion reports. This limit would allow a SGF increase of presumably tens of millions of dollars in FY 16, if projects occur in the same mix and magnitude of the 3 year average and do not opt for the sales tax rebate instead. It is expected that given the choice of no credit or a sales tax rebate, the projects that are limited by the investment cap will instead take the sales tax rebate, offsetting much but possibly not all of this potential SGF increase.

LED distinguishes outlier data like mega-projects as atypical and removes them from the estimate of future activity. However, both the EZ and QJ programs are basically entitlements to any project that applies within the specified industries. Thus, if any large projects opt for a LA investment, the state will be obligated for that investment credit through the life of the program.

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) >= $100,000 SGF Fiscal Cost {H & S}

☐ 6.8(F)(2) >= $500,000 Rev. Red. to State {H & S}

☐ 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

Gregory V. Albrecht
Chief Economist