

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **HB 726** HLS 13RS 2064
 Bill Text Version: **REENGROSSED**
 Opp. Chamb. Action: **w/ SEN COMM AMD**
 Proposed Amd.:
 Sub. Bill For.: HB 455

Date: May 29, 2013 7:26 PM	Author: LEGER
Dept./Agy.: Revenue	Analyst: Greg Albrecht
Subject: New Markets Tax Credit Program	

TAX CREDITS RE1 -\$24,750,000 GF RV See Note Page 1 of 1
 Establishes the New Markets Jobs Tax Credit

Current law variations of this program have provided 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 percentages of the investment in a CDE that are used to make subsequent investments in qualified businesses in the state. Credits are nonrefundable but are transferable. The program was materially modified in 2007, and subsequent versions have specified the total amount of capital allowed to participate and the total amount of tax credit that can be generated. In the last two versions of the program, a total of \$100 million of tax credits have been issued.

Proposed law provides \$24.750 million of transferable premium tax credit (45% of \$55 million of capital allowed into the program). The capital/credit allocation will be made on 8/1/2013, allocating \$55 million of capital and generating total tax credit of \$24.750 million. Associated tax credits can be claimed evenly over three years, beginning three years after the capital allocation. First credit claims can occur in FY17 and last through FY19.

EXPENDITURES	2013-14	2014-15	2015-16	2016-17	2017-18	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	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	\$0
Annual Total	\$0	\$0	\$0	\$0	\$0	\$0

REVENUES	2013-14	2014-15	2015-16	2016-17	2017-18	5 -YEAR TOTAL
State Gen. Fd.	\$0	\$0	\$0	(\$8,250,000)	(\$8,250,000)	(\$16,500,000)
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	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	\$0
Annual Total	\$0	\$0	\$0	(\$8,250,000)	(\$8,250,000)	(\$16,500,000)

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. The bill retains the Revenue Department as the program administrator but provides premium tax credits. Thus, some coordination with the Insurance Department will be required and may add to administrative costs.

REVENUE EXPLANATION

The bill structures the issuance of \$24.750 million of tax credit in a single allocation on August 1, 2013, and provides that this issue can first be claimed against tax liabilities three years after the credit issuance. Thus, premium tax liabilities for 2016, filed in FY17, are first affected. The amount of tax credit that can be taken each year is also structured to be 1/3 of the issuance. Thus, FY17 is exposed to \$8.250 million of revenue loss (first 1/3 of \$24.750 million of credit issued). Then FY18 and FY19 are each exposed to \$8.250 million of revenue loss (second and third share of \$24.750 million of credit). Total state revenue losses are \$24.750 million, spread over three years, with a three-year delay at the outset of the program.

Annual realization of the credits is limited to the premium tax liability of the holder of the credits. However, a ten year carry-forward period is allowed for unused credits, and the credits are transferable to other taxpayers. Thus, it is likely that annual realizations will approximate the annual exposures in the table and discussion above.

Total tax credits granted under the New Markets Tax Credit program have been nearly \$130 million, prior to the additional credit provided by this bill. Under the pre-2007 program parameters, \$29.7 million of credits have been granted over a 9 year period. In two supplements to the program since then, two additional \$50 million allocations of tax credits were oversubscribed. It seems likely that the additional \$24.750 million of tax credits made available by this bill will be fully subscribed, as well. From FY08 to FY13 (through February 2013) new market tax credits realized have totaled \$115.580 million. With this bill, a total of \$154.45 million of tax credits will be issued through the state's program.

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| <u>Senate</u> | <u>Dual Referral Rules</u> | <u>House</u> |
| <input type="checkbox"/> 13.5.1 >= \$100,000 Annual Fiscal Cost {S&H} | | <input type="checkbox"/> 6.8(F) >= \$500,000 Annual Fiscal Cost {S} |
| <input checked="" type="checkbox"/> 13.5.2 >= \$500,000 Annual Tax or Fee Change {S&H} | | <input type="checkbox"/> 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S} |

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