

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **HB 408** HLS 23RS 657

Bill Text Version: **ORIGINAL**

Opp. Chamb. Action:

Proposed Amd.:

Sub. Bill For.:

Date: April 13, 2023	5:16 PM	Author: WILLARD
Dept./Agy.: REVENUE		Analyst: Deborah Vivien
Subject: Tax Credits: Research & Development		

TAX CREDITS OR -\$1,000,000 GF RV See Note Page 1 of 1
 Extends the termination date of the research and development tax credit and provides for exceptions for certain taxpayers

Present law provides Research and Development (R&D) tax credits of 30% of eligible expenditures claimed on a federal return for entities employing less than 50 persons or those that have received a Phase I or II grant from the federal Small Business Technology Transfer Program or a federal Small Business Innovation Research Grant (10% if employing 50-99, and 5% if employing 100 or more). The standard R&D credits are nonrefundable with a five-year carry-forward allowed for unused credits, and transferable for federal grant recipient participants. No credits are allowed for the entire credit program for expenditures incurred after December 31, 2025. LED must annually conduct an audit of 10% of applications. Expenditures that qualify for a R&D tax credit may not receive any other LED-administered incentives.

Proposed law extends the availability of credits for an additional four years to December 31, 2029, removes these projects from the 10% audit pool and allows certain R&D projects to receive multiple LED incentives. Effective January 1, 2023.

EXPENDITURES	2023-24	2024-25	2025-26	2026-27	2027-28	5 -YEAR TOTAL
State Gen. Fd.	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	
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>	<u>\$0</u>
Annual Total						
REVENUES	2023-24	2024-25	2025-26	2026-27	2027-28	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	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Annual Total	\$0	\$0	(\$1,000,000)	(\$2,000,000)	(\$3,000,000)	(\$6,000,000)

EXPENDITURE EXPLANATION

There is no anticipated direct material effect on governmental expenditures as a result of this measure. According to LED, this bill would allow additional grants of an estimated \$1.0 M to be awarded over 2 years for the Small Business Innovation Retention (SBIR) Fund and estimated \$500,000 awarded over 3 years for the Small Business Recruitment Fund as well as any other LED incentives for which the project qualifies and LED awards. The grants have initial funding in FY 23 as a one year pilot, though the program is permanent in law. The FY 24 Executive Budget does not include a second appropriation.

The bill allows projects qualifying for the 30% Research and Development tax credits and that have received federal grants to also receive state grants from the Small Business Innovation Retention Fund (a Louisiana project allowing a grant of 25% of federal grant up to \$25,000; program costs capped at \$1 M annually) or the Small Business Innovation Recruitment Fund (out of state projects allowing a grant up to \$100,000 per federal Small Business Innovation Research (SBIR)/Small Business Technology Transfer Research (STTR) grant recipient with provable business activity and relocation to Louisiana; program costs capped at \$500,000 annually). In addition, the bill appears to allow these projects to also receive any other incentives for the same activities if the incentives are administered by LED. According to LED, 28 projects were eligible for the R&D credit and would utilize about \$843,525 in grants to date. A future funding source or means of finance is not identified beyond FY 23.

REVENUE EXPLANATION

Program Extension

Under current law credits would be available for expenditures made up to December 31, 2025, anyway (within FY 26). Thus, a baseline of program credit costs would likely continue over the fiscal note horizon at diminishing levels until participation and claims played out with no new participants entering the program. Credit realizations against tax liabilities have averaged \$6.1 M per year for the last three years (FY 20 - FY 22). Assuming this level of claims continues, the bill's extension of the program will add increasing costs each year relative to the baseline expectation of annually declining costs. The earliest year of potential impact is FY 26, with costs rising each year (presumed here as an even incremental pattern), maintaining the roughly \$5 M per year normal cost of the program.

In the 2021-22 Tax Exemption Budget, the Dept. of Revenue projected program credit costs of \$6.5 M and \$7.4 M per year for FY 23 and FY 24, respectively. Should those projections become the new norm for program cost realizations, then the annual credit cost ramp-up resulting from the bill is likely to be somewhat higher than depicted in the table above.

Senate Dual Referral Rules
 13.5.1 >= \$100,000 Annual Fiscal Cost {S & H}
 13.5.2 >= \$500,000 Annual Tax or Fee Change {S & H}

House
 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S}
 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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