LEGISLATIVE FISCAL OFFICE
Fiscal Note

Louisiana Legislative Fiscal Office Fiscal Notes

Fiscal Note On: **HB 725** HLS 15RS 1180
Bill Text Version: **ENGROSSED**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: June 4, 2015 8:46 AM
Author: LEGER
Dept./Agy.: Revenue
Subject: New Markets Tax Credit Program
Analyst: Greg Albrecht

TAX CREDITS EG -$29,250,000 GF RV See Note

Increases the qualified equity investment authority for the La. New Markets Jobs Act tax credits

Current law variations of this program have provided state income & franchise tax credits, and for premium tax credits for investments in Community Development Entities (CDEs) organized to participate in the federal New Markets Tax Credit Program. Tax credit amounts 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 version of the program, a total of $24.750 million of tax credits were issued. Proposed law provides $29.250M of transferable premium tax credits. Total credits are the sum of credit allowances (sum to 45% in this bill) multiplied by the total amount of new investment allowed into the program ($65M in this bill); 45% x $65M = $29.250M in credit. The capital/credit allocation will be made on 8/1/2015. Associated tax credits can be claimed evenly over three years, beginning three years after the capital allocation. First credit claims can occur in FY19 through FY21.

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.	$0	$0	$0	($9,750,000)	($9,750,000)	**($19,500,000)**
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	$0	$0	$0	$0	$0	**$0**
Annual Total	**$0**	**$0**	**$0**	**($9,750,000)**	**($9,750,000)**	**($19,500,000)**

EXPENDITURE EXPLANATION

In the past the Department of Revenue has devoted a full-time position to administer this program, and to aid the Department of Insurance. The changes made by this bill will not likely require additional resources. However, with this bill there will effectively be five programs being administered simultaneously, with five 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, continued coordination with the Insurance Department will be required.

REVENUE EXPLANATION

The bill structures the issuance of $29.250 million of tax credits in an allocations on August 1, 2015 and provides that this issue can first be claimed against tax liabilities three years after the credit issuance. Thus, premium tax liabilities for 2018, filed in FY19, 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, FY19 is exposed to $9.750 million of revenue loss (first 1/3 of $29.250 million of credit issued). Then FY20 and FY21 are each exposed to $9.750 million of revenue loss (second and third share of $29.250 million of credit). Total state revenue losses are $29.250 million over FY19 - FY21, 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 various versions of New Markets Tax Credit programs provided by the state have been nearly $155 million, prior to the additional credits provided by this bill. Under the pre-2007 program parameters, $29.7 million of credits had been granted over a 9 year period. In three supplements to the program since then, two additional $50 million allocations of tax credits and a $24.750 million allocation were oversubscribed. It seems likely that the additional $29.250 million of tax credits made available by this bill will be fully subscribed, as well. From FY08 to FY14, new market tax credits realized against income tax, franchise tax, and premium tax have totaled over $145 million. With this bill, a total of $174.250 million of new markets tax credits will be issued through the state's 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}

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