LEGISLATIVE FISCAL OFFICE
Fiscal Note

ACT 13

Fiscal Note On: **SB 4** SLS 201ES 21
Bill Text Version: **ENROLLED**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: September 14, 2020 2:39 PM
Author: FOIL
Dept./Agy.: Economic Development
Subject: Research & Development Tax Credit
Analyst: Greg Albrecht

TAX/FRANCHISE/CORPORATE EN -$1,000,000 GF RV See Note

Extends the sunset of the research and development tax credit. (Item #19) (1/1/21)

Present law provides tax credits of 30% of eligible expenditures for entities employing less than 50 persons or 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). These credits are nonrefundable, but with a five-year carry-forward allowed for unused credit amounts, and not transferable for participants employing 50 persons or less, but are transferable for federal grant recipient participants. No credits are allowed for the entire credit program for expenditures incurred after December 31, 2021.

Proposed law extends the availability of credits for an additional four years to December 31, 2025.

Effective on January 1, 2021

EXPENDITURES	2020-21	2021-22	2022-23	2023-24	2024-25	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	2020-21	2021-22	2022-23	2023-24	2024-25	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

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

REVENUE EXPLANATION

Under current law credits would be available for expenditures made up to December 31, 2021 anyway (within FY22). 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 $5.6 million per year for the last four years (FY16 - FY19). 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 FY23, with costs rising each year (presumed here as an even incremental pattern), maintaining the roughly $5 million per year normal cost of the program.

At the May 11, 2020 REC meeting, the Dept. of Revenue projected program credit costs of $7 million per year in both FY20 and FY21. 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}
- [x] 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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